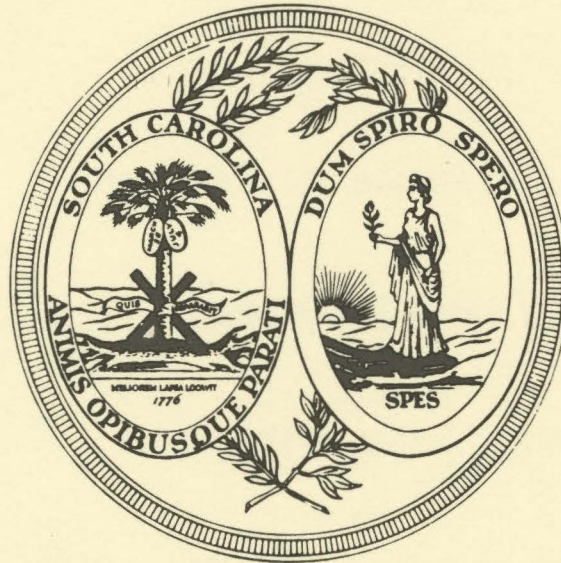


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The State of South Carolina
General Assembly
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A Review and Assessment of the
State's Economic Development
Activities
April 9, 1985

THE STATE OF SOUTH CAROLINA

GENERAL ASSEMBLY

LEGISLATIVE AUDIT COUNCIL

A REVIEW AND ASSESSMENT OF THE STATE'S

ECONOMIC DEVELOPMENT ACTIVITIES

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INTRODUCTION AND OVERALL CONCLUSION

The Legislative Audit Council was requested to provide the General Assembly with an overview of State agencies' activities which affect economic development in South Carolina. This report is the second to be issued by the Audit Council on economic development and covers a review period from October 1983 through March 1984. The first report, published in November 1983, provided a summary of the services and programs for industry, business and the work force, and the regulatory activities of State agencies.

This report addresses the coordination and organization of State efforts in promoting economic development and recommends steps which could enhance economic development in the State. Surveys were sent to 93 local development groups and to 100 businesses across the State to gather information on State assistance and their recommendations for developing the State's economy.

The State Development Board, as the primary agency charged with responsibility for planning and implementing development efforts, was closely reviewed by the Council. Information and assistance was obtained from an additional 30 State agencies and educational institutions (listed in Appendix A). All of these groups were extremely helpful to the Council in preparing this report and their aid is appreciated. The Council also wishes to thank the State Chamber of Commerce and the numerous federal agencies for their assistance.

Five questions were formulated to guide the research:

1. What plan has South Carolina developed to promote balanced economic growth? How are State agencies organized to carry out the plan?
How are local governments encouraged to implement the plan?

2. How is South Carolina promoted as a location for new business/industry/tourism? What changes need to be made?
3. What activities and technical assistance does the State provide for creating and maintaining jobs within South Carolina? What changes need to be made?
4. How has the State eased the permitting/reporting requirements of business and industry? What aid and assistance is provided?
5. How are the technical and vocational education systems organized for meeting industry/business training needs? Are they flexible enough to meet changing needs?

Overall Conclusion from Review of Development Activities

South Carolina has not developed a formal, comprehensive policy or plan for directing State activities encouraging economic development. As a result, there is no overall framework to aid in the development and coordination of agency programs. A framework is particularly needed since South Carolina government operates as individual, independent agencies governed by boards or commissions, and there is no overall mechanism in place for coordinating the various agencies involved in development activities.

The State Development Board is the primary State agency with responsibility for promoting economic development. The Board's legislation states that the purpose of establishing the agency is to conduct "an adequate statewide planning program...to develop the potentialities of the State" (Section 13-3-20 of the South Carolina Code of Laws). The Board is given the responsibility to "cooperate" with agencies in the development of their plans to ensure that the plans mesh into a master plan, designed to consider the natural, physical, social and

economic needs of the State (Section 13-3-90). In 1967, an Executive Order removed some of the Board's planning responsibilities and placed them in the Governor's Office. Further, the Board has little authority to ensure that other agencies' plans interrelate. Therefore, the Development Board's plans for economic development have dealt primarily with its own activities.

State agencies have developed programs and activities promoting different aspects and components of the economy independently, or in informal cooperation with other agencies. Often, the cooperation has depended on the particular program (i.e., federal regulations may require it) or on the personalities involved. Many of the agencies involved in development activities have been given other responsibilities as their primary objective and development as a secondary goal.

During its review, the Audit Council found that a systematic approach to solving the State's infrastructure needs and avoiding potential problems has not been developed. Coordinated efforts to assess the actions needed to improve the performance and/or promote the various components of the State's economy have been limited. Agency actions and responsibilities overlap in some instances and can conflict. Specific instances of these problems are noted below.

- State laws governing local government authority and defining the scope of cooperation among local entities do not promote joint planning and funding of economic development activities.
- Public transportation, used successfully in some areas of the State, has not been studied as an economic development option.
- Water availability and adequate water and wastewater facilities are basic to economic development; however, the State has not established a comprehensive water management plan or developed financing options to aid local governments.

- The State Development Board has not developed a method for choosing targeted industries that are suitable and has not implemented its targeted industries program consistently.
- The State Development Board has done limited market research to support its promotion and business assistance activities.
- Development activities have not been analyzed adequately by the Development Board to determine the best methods for conducting such activities as recruiting trips, advertising and trade show attendance.
- Much of the State's forestry products are sent to other states for processing into consumer goods, yet the information necessary to promote these wood-using industries in the State has not been collected.
- The information needed to adequately promote mining in South Carolina has not been collected.
- South Carolina has the potential to become a major center for aquaculture activities, but a lack of recognition of aquaculture as a distinct industry, in laws and regulations, hampers its development.
- Health and environmental regulation of business and industry has been created without a comprehensive effort to reduce overlapping agency responsibilities and redundant statutes.
- There is no State policy on vocational/technical training and training needs and no mechanism to aid in the synchronization of the State's response to manpower needs.
- Special Schools, offering short-term, preemployment training in support of new and expanding industries, are offered as an incentive only to manufacturing industries.
- The responsibility for the Adult Education Program is not clearly specified within the public school system.

Beginning in 1980, four task forces were appointed by the Governor to study various aspects of the State's economic development. These included the Task Forces on the Economy, Jobs and Economic Development, Employment and Retraining, and the Governor's Council on Small and Minority Business Expansion. In 1983, upon the recommendation of the Chairman of the State Development Board, the Governor appointed the Implementation Task Force on Economic Development and created the Coordinating Council for Economic Development.

The Coordinating Council provides the only on-going mechanism for planning and coordinating agencies' development activities. The Council is composed of the Lieutenant Governor, the Commissioner of Agriculture, the Superintendent of Education, and the chairmen of the boards of the State Development Board, the Ports Authority, the Employment Security Commission, the Jobs-Economic Development Authority, the Research Authority, the Department of Parks, Recreation and Tourism, and the State Board for Technical and Comprehensive Education. The initial responsibilities of the Council were limited, however, to implementing the recommendations of the Implementation Task Force and to ensuring proper coordination among the agencies involved. The Council's purpose, then, does not include overall coordination, and its appointment is temporary.

The Implementation Task Force took the recommendations of the four task forces appointed by the Governor and recommended actions and strategies for meeting their concerns with existing resources. Taken together, the reports of these five task forces can serve as the basis for the formation of a State development plan and the policies and strategies for implementing it.

The Coordinating Council should be permanently established to ensure there is overall coordination of State agencies' activities. The Council's scope and authority should include the formulation of a development plan which would be incorporated into agencies' budgets and activities. Advisory committees to the Council should be created, composed of additional agencies and using the expertise and research capabilities of the State's universities, to offer recommendations on various areas and aspects of the economy and on State regulations.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING SECTION 13-3-10 ET.SEQ., KNOWN AS "THE RESEARCH, PLANNING AND DEVELOPMENT ACT," TO PERMANENTLY ESTABLISH THE COORDINATING COUNCIL FOR ECONOMIC DEVELOPMENT. THE COUNCIL SHOULD HAVE THE AUTHORITY TO FORMULATE A STATE DEVELOPMENT PLAN AND TO IMPLEMENT IT THROUGH ALL APPROPRIATE AGENCIES OF THE STATE.

Background - Development of the State's Economy

State-supported economic development activities, as we know them today, began in 1954 with the legislation creating the State Development Board. Agriculture was becoming mechanized, and thousands of workers were no longer needed on the farms. The State implemented various tax incentives to attract new industries and approved a right-to-work law. In 1961, the technical and comprehensive education system was created to train the State's workers for industry.

South Carolina, like other southeastern states, has had success in attracting out-of-state industries for several decades. Low wage rates, low unionization, growth in the southeastern market, financial and other incentives attracted northern frostbelt firms to the Sunbelt and to South Carolina. The State's technical education system and aggressive industrial recruitment program also contributed to the State's gains in new manufacturing plants.

Whether the "boom years" will continue for the Southeast and the State is a matter of debate. Some argue that the Sunbelt has lost its advantage in attracting new plants because regional differentials in freight are narrower, the cost of living in the Southeast is no longer far lower, differences in wage patterns are less extreme, and there is less federal money for local development. Also, the use of financial and other incentives to attract industry has become universal. Others point out that the cost structure is still lower and that the Southeast is beginning to reach the level of industry concentration necessary to give it all the attractions of the North. More argue, however, that the Southeast is losing its edge and, therefore, that it will become increasingly difficult to attract out-of-state industry to South Carolina.

Changes in the State's Economy

Since 1970, most of the State's manufacturing employment growth has been in its existing, not new industries. New industrial plants accounted for 14% of the total employment increase between 1970 and 1980. Thus, 86% of the growth in the State's employment resulted from the expansion of existing manufacturing firms and growth in the nonindustrial sectors of the economy.¹ Between 1960 and 1981, employment in wholesale and retail trade, services, government, and finance, insurance, and real estate increased from 47.6%² to 56.9%³ of total nonagricultural employment. At the same time, total manufacturing employment decreased from 42.5%⁴ to 32.4%.⁵ Despite this relative decline, South Carolina still has the second highest percent of manufacturing employment in the nation, with manufacturing providing 363,000 jobs in 1982.⁶

For footnotes, see Appendix B.

Only six states in 1981 had a higher percentage of manufacturers' shipments which were exported to foreign nations than South Carolina's 15%. The percentage of total employment in the State that was export-related was 11.7%.⁷ These figures do not include the agricultural products the State sells abroad.

Small firms, those with less than 50 employees, employed 37.5% of the work force in 1982.⁸ Between 1977 and 1980, virtually two out of every three new jobs came from small businesses.⁹

Tourism has continued to grow in the State. In 1982, the travel and tourism industry supported 68,000 jobs, which was 5.8% of total employment.¹⁰

Manufacturing and Textiles

The State is still heavily dependent on manufacturing and textiles. South Carolina maintains the second highest level of manufacturing employment to total employment in the nation.¹¹ The State's heavy reliance on manufacturing, particularly the textile industry, is even more apparent when it is compared to the national average (see Table 1).¹²

Some diversity has occurred within the manufacturing sector in the last two decades. Employment in textiles and apparel has declined from 67%¹³ of manufacturing employment to 47%¹⁴ (1960 to 1980). Between 1970 and 1980, rubber and miscellaneous plastics grew the most within the manufacturing sector, with 32 new plants and 16% of the total new employment. Chemicals and allied products, primary metals and fabricated metals, electronics and electronic equipment experienced major growth.¹⁵

Table 1
Percentage of Total Nonagricultural Employment
By Industry
In South Carolina and the United States
Calendar Year
1982

	South Carolina ¹	United States ²
Total Nonagricultural	100.0%	100.0%
Nonmanufacturing	66.8	79.0
Construction	5.6	4.4
Transportation, Communication, & Public Utilities	4.6	5.6
Services and Mining	14.6	21.2
Wholesale and Retail Trade	19.9	22.9
Finance, Insurance, & Real Estate	4.3	6.0
Government	19.7	17.6
Federal	3.2	3.1
State and Local	16.5	14.6
Manufacturing	31.2	21.0
Non durable Goods	21.6	8.6
Food and Kindred Products	1.3	1.8
Textile Mill Products	10.1	.8
Apparel	3.9	1.3
Paper & Allied Products	1.2	1.3
Printing & Publishing	.7	1.4
Chemicals and Allied Products	2.8	1.2
Durable Goods	9.6	12.4
Lumber & Wood Products	1.1	.7
Furniture & Fixtures	.4	.5
Stone, Clay & Glass	.9	.6
Fabricated Metals	1.2	1.6
Nonelectrical Machinery	2.4	2.6
Electrical Machinery	1.8	2.2
Instruments & Related Products	.4	.8

Sources: 1 South Carolina Employment Security Commission
2 United States Department of Labor, Bureau of
Labor Statistics

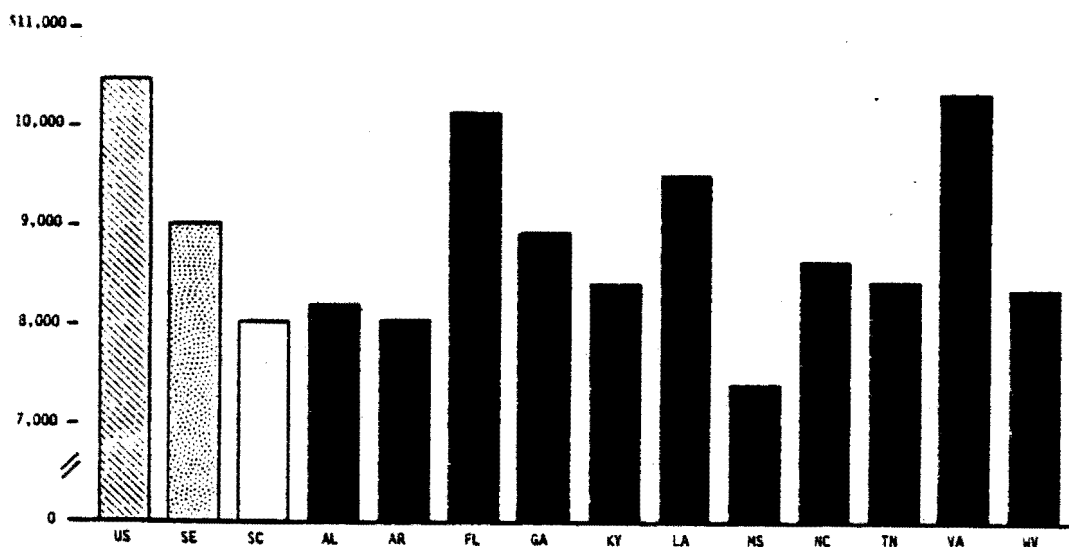
However, much of the new industry that has located in South Carolina during the last 20 years has done so because of the State's concentration of textiles. Most of the investments in chemicals have been for synthetic fiber production. A substantial number of the new metalworking plants make textile machinery and equipment.¹⁶ During the 1970's, new textile and apparel plants represented 22.5% of all new plants and 20.9% of all employment gains from new plants.¹⁷ In 1983,

20 new textile and apparel plants opened, representing 41% of the total number of new plants and 45% of the total employment gains from new plants.¹⁸

Personal Income and Education

Despite new and expanded plants, a move toward economic diversification, and increases in per capita income, South Carolina remains a poor state when compared with other states. The State may have made "substantial progress," but other states have also progressed; therefore, the State continues to lag behind. Growth in per capita income from 1970 to 1980 was 145%, ranking the State 24th in growth.¹⁹ Yet, in 1981, the per capita income was \$8,039, 23% below the United State's average of \$10,491 (see Table 2). The State's ranking was 49th.²⁰

TABLE 2
PER CAPITA PERSONAL INCOME IN THE TWELVE SOUTHEASTERN STATES AND UNITED STATES
IN 1981



Source: 1982 South Carolina Statistical Abstract, Division of Research and Statistical Services.

Most of the manufacturing employment gains in the State have been in routine assembly line operations. The Economic Review, Federal Reserve Board, Atlanta, March 1982, explains:

...it is the relatively standardized production processes that are moving from the old industrial areas, while research, design, engineering, and management tend to remain behind.²¹

The assembly line type plants do create employment, but offer lower-paying and fewer skilled jobs, particularly for professional and technical people. In contrast, research and development plants provide better pay and higher skilled positions. Between 1970 and 1980, eight new research and development plants opened in the State.²²

When compared to other states, South Carolina's education level continues to suffer. Of the population 25 years old and older, 46% did not complete four years of high school. Nationally, 37% did not complete high school. Only Kentucky has a higher percentage of non-completers.²³ One out of every five South Carolinians aged 18 years and older (468,667) have less than a ninth grade education.²⁴ These factors affect the types of industries which locate within the State.

CHAPTER I
PROMOTING THE STATE'S DEVELOPMENT

Introduction

The State Development Board is the State's primary agency for economic development efforts. In 1942, the Board was created as the Preparedness for Peace Commission. The Research, Planning and Development Act of 1945 changed the agency's name to the Department of Research, Planning and Development and gave the agency broad powers and responsibilities "for the stimulation of economic activity to develop the potentialities of the State." In 1954, the Department of Research, Planning and Development became the State Development Board.

The Board is mandated to develop the natural, physical, social and economic resources of the State, promote the coordination of the functions and activities of State agencies, and act as the official State liaison office between the State, federal and local planning, research and development agencies. It is also mandated to promote and correlate State and local public works projects, promote the development of industries, private businesses, agricultural and commercial enterprises, and encourage the investment of capital in the State (Section 13-3-20 of the South Carolina Code of Laws). In practice, the Board's primary role has been to provide information and assistance to industrial prospects and to conduct advertising campaigns to attract out-of-state investment.

The State Development Board consists of a Board of Directors appointed by the Governor with the consent of the Senate. Its staff is organized into four main divisions and an administrative division (see Chart 1).

In FY 83-84, the State Development Board had 60 employees and a \$3.7 million budget (see Table 3).

TABLE 3
STATE DEVELOPMENT BOARD BUDGET

Division	FY 82-83 Actual		FY 83-84 Estimated ¹		FY 84-85 Estimated ¹	
	FTE Personnel	Budget	FTE Personnel	Budget	FTE Personnel	Budget
Administration	5	\$ 220,111	4	\$ 288,446	4	\$ 244,934
Industrial Development	18	637,925	19	796,049	22	869,039
International	5	331,760	5	353,038	5	359,356
Planning & Research	11	338,873	10	366,655	10	362,292
Manpower Resources	3	105,274	3	90,786	3	107,221
Communications	5	603,818	5 ₂	750,176 ₂	6 ₂	1,294,799 ₂
Community Preparation	5	174,160	- ₂	- ₂	- ₂	- ₂
General Operations	6	516,838	7	529,723	8	544,140
Aircraft	2 ₂	299,593 ₂	2	271,977	2	268,525
BASIC	- ₃	- ₃	5 ₃	286,035 ₃	5	230,629
Film Office	- ₃	- ₃	- ₃	- ₃	4	262,465
TOTAL	60	\$3,228,352	60	\$3,732,885	69	\$4,553,400

¹Estimated by the State Development Board, General Operations Section.

²The Community Preparation Section was dissolved and its staff was divided between the BASIC Division and the Economic Development Division in FY 83-84.

³In April 1984, the Film Office was transferred from the Arts Commission to the State Development Board.

Source: State Development Board

The Industrial Division coordinates the industrial and business development efforts of the State. The Division has 11 industrial development agents who serve as sales representatives for the State. The agents provide information and assistance to companies considering South Carolina for a plant location. The Division also maintains the GREAT Towns program, which assists small towns in South Carolina to prepare for attracting industry to their locations. The International Section works to attract foreign investment in manufacturing facilities, conducts foreign trade missions and provides assistance in the development of import and export trade for South Carolina's manufacturers. The Development Board also shares offices in Brussels and Tokyo with the State Ports Authority and the Department of Agriculture.

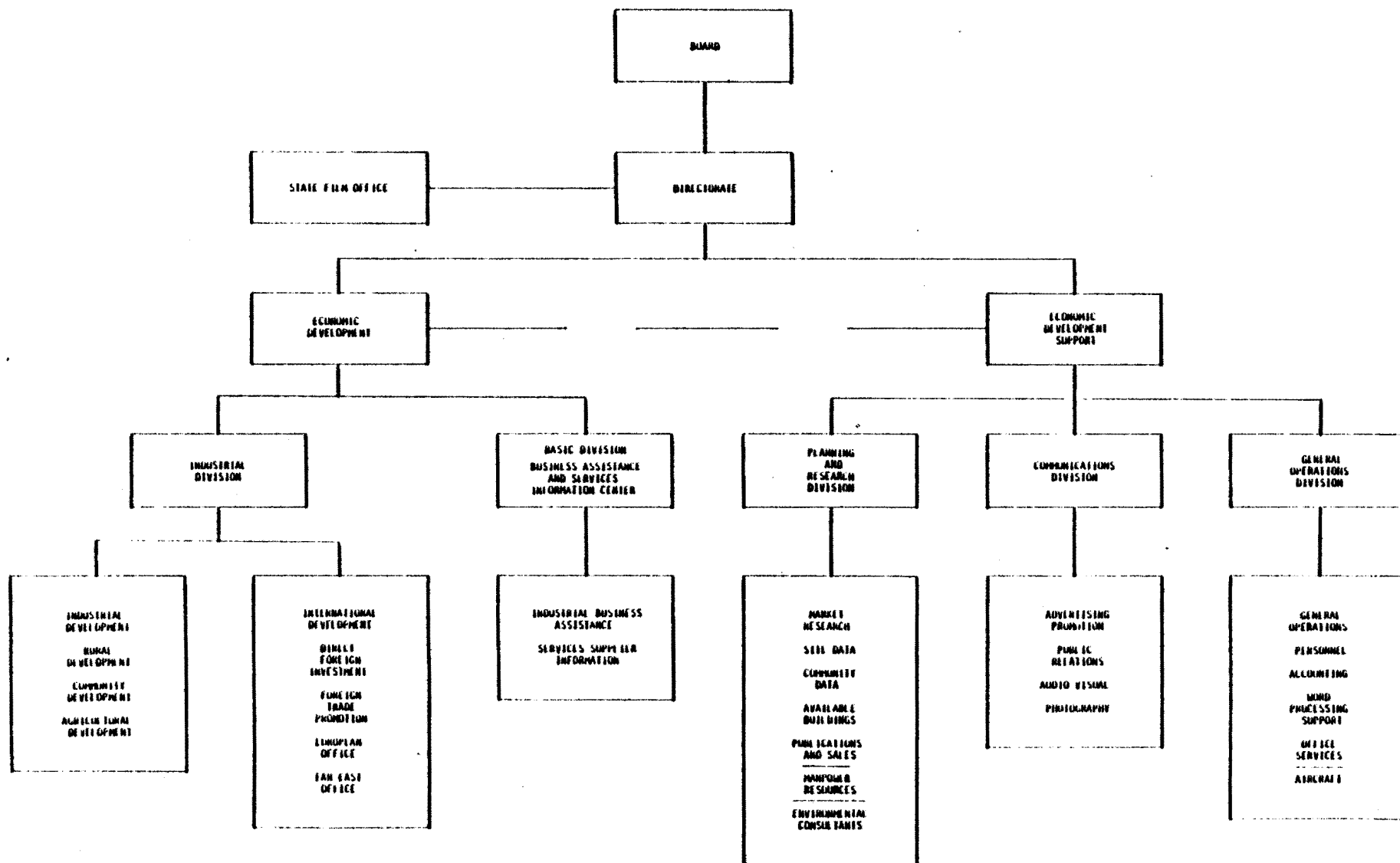
The Business Assistance and Services Information Center (BASIC), created in 1983, provides assistance to existing industries and small businesses in South Carolina to create jobs through new business formations and expansions of on-going businesses. Information and assistance is provided in such areas as federal, state and local financing, licensing/permitting and buyer/supplier linkages. BASIC also provides financial, management, marketing and technical assistance to companies in the State. As part of the BASIC program, the Development Board has also assumed a lead role in establishing incubator facilities throughout the State for small businesses.

The Planning and Research Division provides information to other divisions of the Board, communities and industries. The Division collects and disseminates economic data relating to South Carolina, including new and expanded plant announcements and available building and site information, and prepares special marketing studies on industry types, including targeted industries. The Manpower Resources Section analyzes companies' manpower needs and determines the availability of the State's work force.

The Communications Division conducts public and community relations activities, maintains media contact and provides promotional brochures to divisions of the Board. The Division also directs the Board's national and international advertising campaign, which generated 3,045 inquiries for information from businesses in FY 83-84.

In April 1984, the State Film Office was transferred from the Arts Commission to the State Development Board. The Film Office promotes South Carolina as a location for films, television features and commercials and assists production companies in pre- to post-production activities.

CHART 1 STATE DEVELOPMENT BOARD ORGANIZATION



Source: State Development Board.

Targeted Industries Program

The State Development Board received a supplemental appropriation from the General Assembly of \$293,843 for FY 83-84. Of that sum, the Board budgeted approximately \$230,343 to be spent in attracting the Board's designated targeted industries to the State. The Development Board did not develop a method for choosing a suitable list of targeted industry types and has not implemented the targeted industries strategy consistently.

Choosing Target Industry Types

Targeting specific industry types is one of the most effective economic development tools. There are more than 400 four-digit Standard Industrial Classification (SIC) manufacturing industries identified by the U.S. Department of Commerce and thousands of possible companies within each industry. Targeting industry types is a selective approach in which a development agency screens growing industries for those most attractive and suitable to the State.

According to economic development specialists and practitioners, in deciding which industries to target, the development agency must determine 1) the industries that are growing, 2) the growing industries' needs or location criteria, 3) the State's resources, and 4) the State's development goals. After this information is gathered, the development agency determines the growing industries whose location criteria most closely match the State's resources and development goals. The list of specific targeted industry types should be updated as economic conditions and the State's needs change. Through the selective approach of targeting, a development agency can achieve its goals more efficiently and effectively.

The State Development Board's list of targeted industries, developed in 1983, includes aircraft and aerospace, telecommunications, food processing, plastics, pharmaceuticals, modular and mobile housing, wood-using and defense-related industries. The Development Board did not ensure that the list of targeted industries was suitable for the following reasons:

- 1) The State's resources were not researched and considered in developing the list. A wide variety of natural, institutional and human resources, along with the existing industrial structure, are the major determinants of the State's comparative advantages which attract the new investments required for economic growth.
- 2) The industries' location criteria were not determined for their suitability to South Carolina and the resources it has to offer.
- 3) The list includes industry types that are too broad to be considered useful as targeted industries. For example, the food processing industry is defined by the U.S. Department of Commerce as including 47 four-digit SIC code subcategories, such as meat packing, ice cream, dog food and wine. Also, defense-related industries could include nearly every industry type.
- 4) The list includes industries that are not growing; therefore, the possibilities of their locating in South Carolina are small. For example, from 1979 to 1990, food processing industries are projected to lose 134,000 jobs.
- 5) The Board solicited limited input from outside sources which could provide information to help the Development Board select appropriate target industry types for the targeted industry program.

In 1976, a consulting firm completed a targeted industries study for the Development Board which established a procedure for the Board to target industry types by four-digit SIC codes. The purpose of the study was to enable the State to continue its economic development efforts "...by design rather than by random evolution." By not following targeting methodologies set out in the 1976 report, the State Development Board is not making the most effective use of its own or the State's resources.

Implementing the Targeted Industries Program

The Development Board implemented the targeted industry program inconsistently. In June 1983, the Director of the Economic Development Division asked the nine industrial agents who were assigned targeted industries to establish objectives and procedures for working with their assigned industries. The agents were requested to keep files on their targeted industries and to report the number of contacts they expected to make, plans for mail campaigns, trade shows, advertising assistance, trips, and any other activities which would achieve their targeted industry goals.

The Audit Council reviewed six of the nine agents' targeted industry strategies. As of November 1983, two agents had satisfactorily met the Division Director's requirements for the targeting program. The remaining four agents had not sufficiently implemented their strategies; three of the four agents did not have files on their assigned industries.

Because the Development Board did not choose a suitable list of targeted industries and implement the program consistently, the Board's use of \$230,000 from a supplemental appropriation in FY 83-84 has

resulted in the inefficient use of State funds. The Development Board's request for \$276,000 for the program was included in its FY 84-85 appropriation. Unless changes are made, implementation of the program will result in the continued inefficient use of State funds.

RECOMMENDATIONS

THE STATE DEVELOPMENT BOARD SHOULD CONDUCT ADEQUATE RESEARCH WITH INPUT FROM THE UNIVERSITIES, PRIVATE BUSINESSES, AND OTHER DEVELOPMENT-RELATED AGENCIES, TO TARGET SPECIFIC INDUSTRY TYPES WHICH ARE GROWING AND ARE MOST ATTRACTIVE AND SUITABLE FOR THE STATE.

THE ECONOMIC DEVELOPMENT DIVISION DIRECTOR SHOULD ENSURE THAT THE INDUSTRIAL AGENTS IMPLEMENT THEIR TARGETED INDUSTRY STRATEGIES APPROPRIATELY.

Allocation of Resources

Some of the State Development Board's activities, market research, existing business assistance and export assistance, are understaffed and underbudgeted. In FY 84-85, the Board estimates it will spend 12.9% of its budget on these activities. However, the need for their services is not being met.

During the 1960's, a major objective of the Board was to attract a large number of jobs from out-of-state to assist the State's shift from an agricultural to an industrial economy and to offset the out-migration of the State's population. Since 1980, however, most growth in jobs in South Carolina has been in existing businesses. In South Carolina, existing businesses created 64% of new jobs in 1983. According to the Federal Reserve Bank of Atlanta:

Many development planners are concluding that it is wrong to focus only on large firms considering branch plant locations; most job creation is home-grown.

Large manufacturing firms have not been significant net creators of jobs in the United States in recent years and are unlikely to be in the next decade. Growing productivity allows these firms to increase output without increasing employment, and international competition tends to drive labor-intensive production out of the United States. From 1972 to 1983, South Carolina ranked 29th in the nation in growth in manufacturing jobs, losing 1,000 jobs in that period.

Market research is an important tool in assisting existing industry, as well as promoting the State. It can provide information on buyer/supplier linkages, analyze markets and assist prospects in making location decisions. Export assistance is also important in promoting economic growth. In 1981, 76,400 jobs, or 6.5% of private sector employment in the State, were export-related. However, the district office of the Department of Commerce estimates there are 1,000 more firms that could export but do not.

The agency reorganization announced in August 1984 did not change the allocation of resources discussed in the following pages.

As Table 4 shows, market research, existing business assistance and export assistance comprise a small part of the Development Board's budget and staff time. The Board has made an effort to assist existing businesses with the BASIC (Business Assistance Services and Information Center) program, begun in 1983. However, BASIC's percentage share of the Board's total budget and staff was reduced in FY 84-85. Market research's share of the budget remained the same, but its share of the staff was also reduced. These reductions resulted from the Board's increasing its promotional budget and staff (see p. 33). Export assistance's percentage of the budget increased, but its staff was reduced in FY 84-85.

The Development Board's primary purpose is to provide assistance resulting in job creation in the State; however, the Board's resources are limited. When these resources are not allocated to the areas with the most potential for job creation, the need for Development Board assistance is not met, and the goal of new jobs is not best served.

TABLE 4
ALLOCATION OF STATE DEVELOPMENT BOARD RESOURCES

Development Activity	FY 82-83 Actual				FY 83-84 Estimated				FY 84-85 Estimated			
	FTE Staff	% of Total Staff	Budget	% of Total Budget	FTE Staff	% of Total Staff	Budget	% of Total Budget	FTE Staff	% of Total Staff	Budget	% of Total Budget
BASIC ¹	-	-	-	-	5	8.3	\$ 286,035	7.7	5	7.7	\$ 230,629	5.1
Market Research ²	4.1	6.8	\$ 122,218	3.8	4	6.7	109,119	2.9	4	6.2	125,336	2.9
Export Assistance	1.9	3.1	112,468	3.5	2.0	3.3	141,215	3.8	1.5	2.3	199,085	4.6
TOTAL SDB ³	60	100	\$3,228,352	100	60	100	\$3,732,885	100	65	100	\$4,290,935	100

¹Began operation in FY 83-84.

²Includes part of the Planning and Research Division and all of the Manpower Resources Section.

³Does not include budget and staff for Film Office which moved to the Development Board in April 1984.

In 1983, 16% of new jobs in the State were created by out-of-state companies (see Table 5), while 84% of new jobs were created by existing businesses or new in-state businesses. The Board has committed most of its resources to attracting out-of-state industries, even though in 1983 only 20 of the 786 total new and expanded plants were from out-of-state.

TABLE 5
COMPARISON OF NEW PLANTS FROM OUT-OF-STATE
TO TOTAL NEW AND EXPANDED PLANTS, 1983

	<u>Total New and Expanded Plants</u>	<u>New Plants From Out-of-State</u>	
		<u>Number</u>	<u>Percentage</u>
Number of Plants	786	20	3
Number of Employees	11,281	1,816	16

Staff and/or funding needs for some Development Board programs are discussed in more detail in market research (see p. 24), existing business assistance (see p. 26), and export assistance (see p. 108). As part of a review of staffing and funding, the Board needs to analyze the efficiency and effectiveness of its development activities in relation to one another (see p. 31).

RECOMMENDATION

THE STATE DEVELOPMENT BOARD NEEDS TO
DETERMINE IF ITS STAFF AND FINANCIAL
RESOURCES ARE ALLOCATED TO AREAS WITH
THE MOST POTENTIAL FOR CREATING NEW JOBS.

Market Research

The State Development Board has done limited market research to support its promotion and business assistance activities. More detailed market analysis of South Carolina's resources is needed to attract and assist prospects in making location decisions. Furthermore, available information is not adequate for determining and promoting existing markets for goods and services used in the State's manufacturing processes. This information is important not only for assisting existing industry, but also for determining industries the State can best recruit (see p. 16).

Promotional materials prepared specifically for certain industries by the Board do not include some types of market research to describe the advantages of those industries locating in South Carolina. The Planning and Research Division has done some reports, on such industries as plastics and robotics. However, these have generally been commentaries on the State's business climate, quality of life, and labor force, rather than detailed information on the resources and the linkages available within the State for those industries.

Several problems contribute to the lack of market research at the State Development Board. According to an official in the Planning and Research Division, the main reason for the lack of market research is that an estimated 90% of the division's time is spent responding to inquiries for information. The Planning and Research Division is also charged with updating and maintaining previously published reports, community information and other data. Due to the existing staff size, these other activities are done at the expense of primary market research.

The lack of an automated information system at the Development Board, other than word processing systems, has also hampered research

capabilities. Because information is scattered among different locations, the retrieval of data is time-consuming. Therefore, linkage information and industry reports have been limited.

The types of research needed for the Development Board and its prospects are seen in the market research and studies done by consultants and for private companies. Their research and reports include information on market demand, production, and consumption for the selected industry. They also include information the Development Board has previously presented only upon request: buyer/supplier match information, existing related industries and products, shipping alternatives and capacities, applicable environmental and health regulations, and industrial financing alternatives. Other research is needed on production and transportation costs and the effect of taxes on the State's industries. Such research is necessary, according to the National Association of State Development Agencies, for determining the ability of an industry to do well in the State.

Information currently being collected under the Development Board's BASIC (Business Assistance Services and Information Center) program could provide some of the data needed for the Development Board's market research. Also, future linkage studies could be facilitated by the Development Board, or by consultants using the data, if the buyer/supplier information is collected in a compatible format.

The Development Board received four new market research positions in the FY 84-85 Appropriations Act. However, only three of these positions will serve in a market research capacity, with two also serving other functions.

The market research conducted by the Development Board is not sufficient. Therefore, the lack of information available from the Development Board to prospects and existing industries who are trying to make location or expansion decisions may hamper development efforts for the State.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD PROVIDE MORE DETAILED MARKET RESEARCH NEEDED BY PROSPECTS, EXISTING INDUSTRIES, AND OTHER USERS TO FACILITATE LOCATION AND OTHER DECISIONS. THE DEVELOPMENT BOARD SHOULD ENSURE THE NECESSARY STAFF AND COMPUTER CAPABILITIES ARE AVAILABLE THROUGH THE PLANNING AND RESEARCH DIVISION TO FACILITATE COMPETENT AND BENEFICIAL MARKET RESEARCH FOR PROSPECTS AND OTHER USERS.

Business Assistance Services and Information Center

Before the Development Board can provide assistance to existing industry, it must assess the State's natural and industrial resources to determine the needs of existing industry. Although the Development Board's BASIC program will attempt to do this, the Board has been slow in formulating and implementing the program and has not assigned sufficient staff to the project.

In early 1983, the Development Board created its Business Assistance Services and Information Center (BASIC). Among BASIC's objectives are to promote and expand economic activity among South Carolina's manufacturing industries and to promote awareness and appreciation of existing industry. BASIC will do these by providing information on the buyers and suppliers of goods and services used by the State's industry, and by providing other marketing, management and financial assistance as requested.

The Development Board has been slow in formulating an automated information and retrieval system for BASIC, which is partially operational on a manual basis. A year after its inception, the scope was still not clearly defined, and plans for acquisition of computer equipment and programs were not finalized. Further, the plans and format for obtaining and collecting the data had not been decided, except that pre-written programs would be purchased.

The system will be used to determine interindustry linkages among existing or potential in-state industries. It will include information on the products used and/or produced in South Carolina, including raw materials, component parts, suppliers and other data.

Dissemination of this information will help promote the State's industries in the marketplace by linking them together. Companies can be aided in buying the materials they need from within the State or in selling their products, which may be materials used in the products of other companies. The data can also show South Carolina as a potential market in order to persuade out-of-state suppliers to locate in the State.

Because of the importance of buyer/supplier information to promote the State as a location for business, the two-year time frame estimated for implementation of BASIC can hinder the effectiveness of the program. Not only will the implementation involve considerable manhours, but also the annual updating task will be time-consuming. The staff assigned to these tasks must also continue to provide various types of business assistance and referrals.

The Development Board should consider shifting staff adequate to complete the initial BASIC information bank as quickly as possible. However, since the gathering and updating of information will be continuous, the Development Board might consider contracting outside the agency for the data collection. The Division of Research within the College of Business Administration at the University of South Carolina and private research groups have the capabilities to conduct the survey phase of the program and provide consultation on implementation of the automated system. The Division of Research, which performed an interindustry linkage study in 1981, used data similar to that which the Development Board hopes to collect.

The buyer/supplier match program will be the first to be automated by a State development agency. This unique program can provide South Carolina with the benefit of information beyond that which other states have. Steps should be taken, therefore, to ensure that the data is as up-to-date and complete as possible to meet the needs of the State's existing businesses.

Other Assistance From BASIC

In addition to being a service information center for buyer/supplier matching, BASIC is planned as a "clearinghouse" for providing various forms of business assistance and referrals for marketing, management and financial problems. The Development Board will hold a Small Business and Industry Growth Exposition annually around the State, to offer workshops on doing business in South Carolina and to promote the State's industries and businesses through exhibition of their products. Referral assistance will also be offered on regulations for business start-ups and on health and environmental issues (see p. 44). Since BASIC is still in its implementation phase, the full scope of the assistance planned for the future is not currently being provided. If BASIC is implemented and administered effectively, it can aid the Development Board in becoming a clearinghouse for information, assistance and referrals for new and existing businesses. With its automated system, South Carolina could be a step ahead of other states in providing assistance to encourage both new and existing businesses to create and maintain jobs.

Other management assistance as part of BASIC is provided by the Development Board through its participation on the Rapid Response Team, along with the State TEC Board, the Employment Security Commission and the JTPA (Job Training Partnership Act) Division of the Governor's Office. The team's objective is to prevent a plant from closing or to assist the plant and its employees after a closing.

At the recommendation of the Governor's Implementation Task Force, the Development Board has also assumed a lead role in establishing incubator facilities throughout the State for small businesses. Incubator

facilities provide office space, shared services, such as word processing and building maintenance, and technical assistance for new and small businesses. The Business and Technology Center in Charleston, a joint venture between the City and a private corporation, provides similar services and, as a result, has created more than 350 new jobs and reversed the failure rate of its small businesses from the national average.

The Development Board has contracted with the same corporation to provide technical assistance in establishing other business and technology centers in Spartanburg, Florence, North Augusta and Rock Hill. The firm will also provide assistance to the Development Board in developing a small business network in each community to provide management and technical assistance, financial assistance, education and training.

RECOMMENDATIONS

THE STATE DEVELOPMENT BOARD SHOULD CONSIDER SHIFTING STAFF TO COLLECT THE DATA FOR BASIC AND TO ENSURE THAT THE DATA COLLECTED IS KEPT COMPLETE AND UP-TO-DATE TO MEET THE NEEDS OF THE STATE'S INDUSTRY AND THOSE OF THE DEVELOPMENT BOARD.

-OR-

THE STATE DEVELOPMENT BOARD SHOULD CONSIDER CONTRACTING OUTSIDE THE AGENCY FOR DATA COLLECTION FOR THE AUTOMATED BASIC PROGRAM AND TO KEEP THE INFORMATION CURRENT.

Effectiveness of Activities

The State Development Board does not adequately analyze its development activities, such as recruiting trips, advertising and trade show attendance, to determine the best methods for conducting each of these activities. In addition, the Board does not evaluate its development activities in relation to each other, which would provide a means for determining the most effective and efficient distribution of the Board's resources.

For example, the Board conducts an advertising campaign through an advertising agency to promote an awareness of South Carolina for business investments and to generate inquiries for investments. The Board's advertising agency evaluates the effectiveness of ads in promoting awareness of the State among business executives. However, the Board does not analyze which magazine ads result in contacts with companies actually considering relocation or expansion. Further, the Board does not analyze which size or type (color or black and white) of ad is most effective in generating actual prospects.

The Development Board also does not analyze whether advertising is a more effective method of promoting the State than other activities, such as recruiting trips or trade show attendance. The Board's budget for advertising has been increased, even though the effectiveness of its advertising is not known when compared with other development activities in developing leads for prospects.

The Development Board uses the growth of new and expanded plants to measure its overall success. However, plant announcements are not an adequate measure of the effectiveness of the Board's programs

because many other factors influence plant location decisions. Surveys have shown that proximity to markets, worker productivity and transportation costs are major factors in location decisions. Since the Development Board cannot influence these factors, its role in industrial development is to promote the State through advertising and to provide information and assistance to new and expanding companies. However, the Board has not developed a method for determining which of its activities are most successful in promoting the State or assisting industries.

The Development Board could measure the effectiveness of its development activities by surveying, on a regular basis, companies that did and did not locate in the State. The Board could also analyze attendance at trade shows, recruiting trips and advertising responses from prospects to learn the most effective methods for conducting each of these activities and the most effective activities in achieving the Board's goals. A comparison could then be made to determine the most effective and efficient distribution of the Board's resources.

Without adequate effectiveness measures, the Development Board is not accountable for the use of its resources and cannot determine if it is operating efficiently or effectively. The Board's goals of increased jobs and investment in the State are not best achieved when the effectiveness of its development activities is not known. Also, the Board's resources may not be directed to the activities with the greatest potential for achieving its goals when such evaluation is not undertaken (see p. 19).

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD DEVELOP
EFFECTIVENESS MEASURES OF ITS DEVELOPMENT

ACTIVITIES, WHICH CAN BE USED TO ALLOCATE
RESOURCES AND PROVIDE ANALYSIS OF THE
STATE'S ATTRACTIVENESS TO INDUSTRY.

Contracting For Public Relations

In FY 83-84, the State Development Board paid its advertising firm \$50,000 to begin a public relations program and included \$96,000 in its FY 84-85 budget to continue the program. Contracting for public relations services is not necessary because the Board has the capability to conduct its own public relations program.

The Development Board's Communications Division has a professional staff of two which already conducts some public relations activities, and its Planning and Research Division provides information and writes news articles for publications. In addition, the Board is adding a public relations specialist to its staff to assist in writing feature articles for newspapers and magazines.

Another State agency with promotional responsibilities, the Department of Parks, Recreation, and Tourism (PRT), does not contract for public relations services. Instead, its National News and Information Service writes and distributes news and feature articles for the State's travel industry.

According to the Development Board, the purposes of the public relations program are to supplement the Board's decreasing advertising budget and to provide information and news articles to national and international publications. However, as noted on page 31, the Board's advertising budget has been increased.

By contracting for public relations, the State Development Board has duplicated its efforts to provide information and news articles to publications. Since the Board's contract for public relations is unnecessary, the expenditure of funds for this activity is an inefficient use of the State's resources.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD DISCONTINUE
CONTRACTING FOR PUBLIC RELATIONS SERVICES.
ALL PUBLIC RELATIONS WORK SHOULD CONTINUE
TO BE DONE BY THE BOARD'S STAFF.

Expanded Plant Announcements

The State Development Board collects information on new and expanded manufacturing plants to indicate industrial growth in South Carolina. However, the Board's reports of expanded industrial plants are misleading. Economic growth in manufacturing comes from increased production capacity, which results from additional employment and/or capital investment. In 1983, the Board reported 737 expanded manufacturing plants with capital expenditures of \$926,660,000 (see Table 6). However, in its collection of plant expansion information, the Development Board requested information on all capital expenditures, including those which did not result in increased production capacity.

TABLE 6
SOUTH CAROLINA NEW AND EXPANDED PLANTS
1980 THROUGH 1983

Year	New Plants			Expanded Plants			Total		
	No. Plants	No. Jobs	Investment (\$000)	No. Plants	No. Jobs	Investment (\$000)	No. Plants	No. Jobs	Investment (\$000)
1980	79	8,093	\$ 507,257	596	6,437	\$1,008,386	675	14,530	\$1,515,643
1981	72	6,605	1,161,485	661	9,344	1,232,667	733	15,949	2,394,152
1982	46	3,251	587,216	644	8,402	1,807,028	690	11,653	2,394,244
1983	49	4,092	359,985	737	7,189	926,660	786	11,281	1,286,645

Source: State Development Board.

The Development Board surveys all industries in the State each July for information on plant expansions. The second question of the survey, which provides plant expansion information, states:

2. In calendar year 1983, has there been or are there plans for capital expenditures for plant and equipment for this facility?
 - a. Estimated investment \$_____.
 - b. New jobs resulting from this expenditure _____.
 - c. Is this announcement confidential or may this plant be placed on our expanding plant list? [Emphasis Added]

Capital expenditures for plant and equipment do not necessarily mean that there is an increase in production. For example, a plant manager who renovates the plant's administrative offices could include that expenditure on the Board's survey. However, an office renovation does not indicate increased production capability. On the survey the Board uses to collect information on plant expansions, plant managers are not asked if capital expenditures were for expansions. In reviewing the plant expansion files, the Audit Council noted that four plant

managers reported capital investment totalling \$8.5 million, but they added that the investments did not represent expansions. However, the Board recorded them as such.

The list of "expansions" included numerous plants that had relatively small capital investments and showed no increase in jobs. One hundred fifty-seven (157), or 21% of the 737 expansions, had no increase in employment and less than \$100,000 in capital investments. Of the 157 expansions, 40 had capital investments of \$10,000 or less and three "expansions" reported only \$1,000 in capital investment.

By not adequately defining plant expansions as increased production capacity resulting from capital expenditures and/or additional jobs, the Development Board has not presented an accurate picture of the growth of the State's manufacturing economy. Therefore, South Carolina's manufacturing growth has appeared to be better than it actually is.

RECOMMENDATION

ON ITS ANNUAL SURVEY OF INDUSTRIES, THE
STATE DEVELOPMENT BOARD SHOULD REDEFINE
PLANT EXPANSION AS CAPITAL EXPENDITURES
AND/OR NEW JOBS WHICH RESULT IN INCREASED
PRODUCTION CAPACITY.

Available Industrial Sites and Buildings

Assisting a prospect in locating a suitable site or building is one of the State Development Board's most important recruiting tools. To facilitate access to such information, the Development Board maintains an inventory of data on available sites and buildings.

The Development Board estimates its industrial site inventory includes approximately 1,400 pieces of property. Sites are identified in numerous ways; local level input from local development boards and contacts is extremely important to the success of the program.

Once a site is identified, information is gathered on the location, size, fire service, access to transportation, infrastructure and price. A site brochure is created or obtained and is distributed, as needed, to industrial agents, prospective buyers and allies.

A similar inventory of over 200 available buildings for sale or lease is maintained with pertinent information. The buildings coordinator compiles brochures which include a photograph of the building, a highway map of the vicinity, and information on the location, size, former use, condition, transportation access, utilities specifications and price.

The Audit Council found the information on the inventories to be adequate, with the following exceptions. The records are kept manually, although such data could be automated as is done by the North Carolina Department of Commerce. Automation improves accessibility to the records and makes updating easier. Further, there is no formal system for follow-up or updating of information. The Development Board relies on local input, input from its staff and occasional surveys with inadequate responses to maintain current information.

RECOMMENDATIONS

THE DEVELOPMENT BOARD SHOULD CONSIDER
AUTOMATING THE SITES AND AVAILABLE BUILDINGS
INVENTORIES.

THE DEVELOPMENT BOARD SHOULD IMPLEMENT A FOLLOW-UP SYSTEM TO ENSURE ACCURATE AND CURRENT INFORMATION FOR THE SITES AND AVAILABLE BUILDINGS INVENTORIES.

Labor Statistics

One of the most critical factors in a company's site selection process is the availability of labor. Another key factor is the cost of the labor, including wages and fringe benefits. The Development Board's Manpower Resources Division provides this information to prospects for all of South Carolina or for a specific area of the State.

Prospects are initially given an overview of the State's labor force and wage comparisons for the particular industry. When potential sites have been narrowed to just a few, the demographics are presented for a 30-mile radius of each potential site, since a company's usual labor draw is that distance. Also, any particular request by the prospect for other labor information is answered.

The Development Board also prepares several other labor reports to offer prospects and local development boards. A statewide overview is available, and statistical sheets have been prepared on each county which include the county's employment by industrial segments. On the community level, the Development Board publishes a capsule analysis of the local labor force on approximately 110 South Carolina communities.

The Manpower Resources Division has begun a formal process for identifying and evaluating concentrations of job skills across the State. Formerly, this was done only at the request of industrial agents or

prospects. Labor availability (quantity and location) is important to industry decision-making. However, knowing concentrations of job skills and the flexibility of the work force in certain areas is important in targeting strategies to determine the human resources the State has to offer. Industries can then be recruited for an area by offering an available work force that is adaptable to their particular labor needs.

Assistance to Communities

Communities in the rural areas of the State face numerous barriers to industrial development. They lack many forms of infrastructure necessary for development: adequate water and sewer treatment facilities, transportation systems, a trained labor force, recreational and cultural opportunities, housing and shopping facilities, and health services. In addition, many communities lack a strong development program. The GREAT Town Program of the State Development Board is designed to aid communities in these areas.

In 1976, the Governor's Rural Economic Achievement Trophy (GREAT Town) Program was started by the State Development Board. The program is designed to help representatives of small towns with populations under 15,000 promote their communities to industry. To date, 56 towns have received GREAT Town status, and eight other towns have entered the program.

Phase one of the program is designed to organize and prepare the town for promotion to industrial prospects. During this phase, the town's representatives form a non-profit development corporation, establish a good working relationship with existing industries, and identify four industrial sites. Sales tools are developed, including a

community information booklet, a brochure, a slide presentation, and a site information booklet.

Phase two involves the formation of a sales team to represent the community to an industrial prospect. Each member of the sales team assumes responsibility for presenting information in such areas as available industrial sites, human resources, transportation and marketing services, livability, finance, and government.

A review is conducted by an industrial agent of the Development Board and four members of the public, including bankers, private consultants, and representatives from local utilities, railroads, Councils of Government, and State agencies, to ensure the community is prepared. Once designated a GREAT Town, the town has an advantage over other communities in the State in attracting prospects, since the representatives are prepared to sell their community.

GREAT Town status is reaffirmed annually to keep the town's sales tools current and to see that the sales team remains prepared. As of February 1984, 24 towns (43%) had been reaffirmed.

The GREAT Town program is the only formal program of assistance available to local governments from the State Development Board. The Board, through the industrial agents of the Economic Development Division, provides other assistance to communities upon request or on a periodic basis.

Promotion Efforts for Rural Development

In an effort to balance economic growth between urban and rural counties, the State Development Board undertook several activities to promote rural development, receiving help from or providing assistance

to various other State agencies. Counties were aided in planning, site development and promotion materials.

To identify those counties most in need of development assistance, the Development Board's Planning and Research Division ranked the State's 46 counties by economic strength. After analysis, the "bottom" six counties were selected to receive the Development Board's assistance. For each of these counties, an assessment was made of their current industries by product and employment, population/labor statistics, existing industrial sites, and available buildings. This pointed out possible barriers to overcome to make these counties more competitive as industrial locations.

A special "Model Economic Development Project" for Lee County, funded through the Governor's Office, was conducted by a private consulting firm. It analyzed labor and community facilities and included a manual on how to set up a local development organization. Additional planning monies for three of the counties were provided through CETA and HUD (Department of Housing and Urban Development) to upgrade site planning and brochures, engineering and manpower studies, community data booklets, and to provide leadership development. The Development Board has since used these studies and materials as models for development assistance for other rural areas.

In an effort to establish county-level preparation groups similar to those for the GREAT Towns (see p. 39), the Development Board published "Economic Development - A Program of Development for South Carolina Counties" in 1982. It describes the industrial development process and the elements needed for a rural county industrial development program. However, the program has not been implemented.

Also in 1982, the Development Board assisted the Governor's Office in expanding the list of economically distressed counties to 16. A 1981 University of South Carolina study, which analyzed interindustry linkages of materials bought or sold by manufacturing firms in the State, was used to develop a list of 2,300 companies from a 19-state area of the Northeast and Midwest whose products fit the 16 counties' needs. It was thought the companies, upon learning of an existing market, might relocate to South Carolina.

Rather than have the 16 counties individually correspond with these companies and thus be in competition with each other, the Development Board was to send out these promotional letters on the Governor's stationery. Postponed in 1982 due to the recession, the mailing has now been postponed indefinitely. According to a Development Board official, incomplete market research in the University's 1981 study and within the Development Board (see p. 24) would hamper follow-up to these companies' queries, regarding the product and quantity needs of South Carolina's existing industries.

As discussed on page 69, improvement in the State's economy is keyed to the development of local resources. Planning for economic development and promoting an area for business location require a long-term, expensive commitment by local governments. The long-range plan for such a commitment is made more difficult since there is no county in the State that is a viable economic unit, containing all the factors for economic growth. There are seven economic regions in South Carolina, whose local governments, rural and urban, are dependent on each other for development. Economic development planning should take place then, at least at the county level with an understanding of the impact of the economic region and the county's relationship to it.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD IMPLEMENT A PROGRAM FOR PREPARATION AND UPGRADING OF COUNTY DEVELOPMENT GROUPS. OTHER LOCAL GOVERNMENT GROUPS SHOULD BE ENCOURAGED TO PARTICIPATE. THE EFFECTS OF THE STATE'S ECONOMIC REGIONS AND THEIR IMPORTANCE TO ECONOMIC DEVELOPMENT PLANNING SHOULD BE STRESSED.

CHAPTER II

REGULATING INDUSTRY AND BUSINESS

Introduction

Because the regulation of industry and business by the State and federal governments imposes real costs on enterprises when opening or expanding an operation, the Audit Council reviewed the State's regulatory process and found:

- South Carolina has no system for coordinating the necessary applications, licenses, inspections, and other permitting requirements needed to do business.
- There is overlap between some State and federal regulations on similar issues and of jurisdiction between some State agencies.
- These problems have added confusion to the complexity and technical nature of the regulations, as well as to the costs of regulation on industry and business.

Decisions by prospects to locate in the State can be hindered and delayed by the regulatory process; because of this, South Carolina could lose prospects to other states.

There are two general types of regulations with which businesses must comply: those required to "start-up" a business and those concerning health and the environment. The State Development Board and the Program Assistance Line (PAL) offer referral services for regulatory questions, but neither group maintains an inventory of applications and other forms required by State regulatory statutes.

Aid for Business Start-Ups

There is no place within the State, including the Development Board, PAL, or the Secretary of State's Office, where all forms necessary

for business start-ups are maintained. Instead, the individual agencies, such as the Secretary of State's Office, the Tax Commission and the Employment Security Commission, must be contacted to get incorporation agreements, payroll withholding forms, sales and income tax withholding forms and other business forms.

According to an official at the Development Board, they assist companies that have business start-up questions, to prevent them from receiving the "run around" between State agencies. The Board has rewritten its publication which describes the regulations and forms necessary for starting a business. However, businesses will still have to go from agency to agency to obtain all the forms.

Some states have taken steps to reduce the difficulties in meeting requirements for starting businesses, as Colorado has done with its "Business Start-Up Kit." The kit includes information sheets on the state's sales tax, withholding tax, unemployment insurance and workmen's compensation, for which a joint application is provided to be used by the different agencies involved. Also enclosed is a description of the services of its business information center.

There has been much discussion recently on the State's business climate. One way to improve the experience of businesses dealing with the State is to provide an easier method for "start-ups," regulatory assistance and compliance.

RECOMMENDATIONS

THE STATE DEVELOPMENT BOARD'S BASIC DIVISION
SHOULD ADD REGULATORY INFORMATION FROM
THE VARIOUS STATE AGENCIES TO ITS BASIC

DATA BASE, FOR EASIER ACCESS TO THE
INFORMATION.

THE STATE DEVELOPMENT BOARD SHOULD FORMULATE
A "BUSINESS START-UP KIT" WITH INCORPORATION,
TAX, PAYROLL AND OTHER FORMS.

Health and Environmental Regulations

Since the 1960's a large body of health and environmental regulations of business and industry has been created, without a comprehensive effort to organize and refine the legislation. Agency responsibilities overlap, and statutes are redundant. Further, the effects of one regulation on another have not been considered.

The lack of organization and coherence in regulations not only increases compliance costs for business and industry, but also increases the State resources required to enforce the regulations. In the 1983 Audit Council survey of State agencies, several agencies involved with health and environmental regulation noted one of the biggest problems with regulation was other agencies handling the same issue. Respondents to the survey stated they favor a reduction of redundancy in the statutes and some form of consolidation of the permit process in South Carolina.

Some permits require oversight by several State agencies. As discussed later, aquaculture businesses could be involved with as many as six State agencies and two federal agencies in the permitting process (see p. 97). In some cases, the review for obtaining a permit

for construction of a wastewater treatment system may be conducted by the Water Resources Commission, the Land Resources Conservation Commission, the Coastal Council and the Department of Health and Environmental Control (DHEC). Further, federal and State laws often overlap on similar issues; for example, a permit for construction activity in a stream is often required by State law from the Water Resources Commission and by federal law from Corps of Engineers.

Because of the complexity of the regulations, coordination is necessary even within agencies, such as DHEC, for various divisions are only trained and prepared to handle particular issues. For example, air quality control specialists are not prepared to handle permits for solid hazardous waste disposal. When a large company is planning to locate or expand in South Carolina, it is often necessary for the bureau directors from DHEC's regulatory divisions to meet with company officials to discuss the applications needed for permits and licenses and the steps the company must take to comply with the statutes.

Agencies have made some efforts at coordination and consolidation of permits. Informal cooperation agreements are used to delineate responsibilities between agencies, but protection of agencies' "turf" is an area of conflict. Responses to the Audit Council survey of State agencies described attempts at coordination and consolidation as "moderate."

The 1982 Jobs and Economic Development Issues and Alternative Strategies report to the Governor labeled South Carolina's regulations "fragmented" and recommended:

Work to streamline the environmental permitting process and all regulatory functions that affect development...

The report stated that a location decision by a prospect can be jeopardized and made more difficult by the lack of a coordinated system of development assistance and permitting procedures. Unnecessary delays and costs can preclude the business' decision to locate or expand. Aquaculture businesses, for example, face a variety of regulations aimed at other businesses, which may retard its development (see p. 96).

Various regulatory reforms are taking place in other states, in order to encourage development rather than discourage it. The impact of regulations on business, particularly small businesses, has been studied in several states. The studies have been conducted with the input of representatives from the business community to provide a more accurate picture of the impact of regulation on business and industry, based on first-hand experience.

A similar review process should be established in South Carolina. Review groups, composed of businessmen from similar types of business and industry, need to examine the regulations pertinent to each type and make recommendations as to consolidation of permits, reporting periods and permit review. Their proposals for ending redundancy in the statutes and regulations, together with the recommendations from the agencies involved, should be reviewed by the executive and legislative branches of State government. The State can then organize and refine the regulation of business and industry to reduce the costs to business and the State, while maintaining protection of the public and the environment.

RECOMMENDATIONS

LARGE REGULATORY AGENCIES THAT WORK WITH INDUSTRY AND BUSINESS, SUCH AS THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL, THE PUBLIC SERVICE COMMISSION, THE WATER RESOURCES COMMISSION AND THE LAND RESOURCES CONSERVATION COMMISSION SHOULD CREATE CENTRAL PERMIT BOARDS TO COORDINATE REGULATORY ACTIVITIES WITHIN THEIR AGENCIES.

THROUGH THE AUSPICES OF THE GOVERNOR'S OFFICE, THE STATE SHOULD ESTABLISH REVIEW BOARDS OF THE BUSINESS COMMUNITY TO STUDY:

- 1) UNNECESSARY DUPLICATION OF FORMS AND REGULATIONS AMONG STATE AGENCIES,
- 2) UNNECESSARY INFORMATION REQUESTED ON THE FORMS, AND
- 3) THE IMPACT OF REGULATIONS ON SMALL BUSINESS.

CHANGES COULD BE NEGOTIATED WITH THE AGENCIES THROUGH THE GOVERNOR'S OFFICE, AND RECOMMENDATIONS REQUIRING LEGISLATIVE ACTION COULD BE BROUGHT TO THE GENERAL ASSEMBLY.

CHAPTER III
TRAINING THE STATE'S WORK FORCE

Introduction

Key to the economic development of any area is the education level of the work force. The Bureau of Labor Statistics estimates that by 1990, three out of four jobs will require some technical training beyond high school. South Carolina ranks 49th in population with a high school education. Nationally, 66.3% of the population 25 years and older have a high school education; in South Carolina, 54% have a high school education.

The Audit Council looked at the two primary systems for providing vocational/technical education to determine the ability of the State to respond to changes in the workplace and prepare workers for jobs. The Adult Education program was also reviewed to examine the State's efforts to upgrade worker literacy in preparation for training. The Audit Council found:

- There is no State policy on training and training needs to aid in coordinating the State's response to manpower needs.
- The State lacks the employment demand and student placement information required for planning future employment and training programs and for evaluating existing programs.
- The Special Schools Program has not broadened its training to include industries other than manufacturing.
- Responsibility for the Adult Education Program is not clearly specified within the public school system.
- No local funding is required of school districts for adult education.
- The method of funding adult education serves as a disincentive to recruiting for the program.

Coordination of Vocational and Technical Education

Rapidly changing technology and foreign competition mean the emergence of new industries, changes in the skills required for existing jobs, and the disappearance of jobs in older manufacturing industries. For South Carolina, these changes require that the vocational/technical system educate new workers on new kinds of jobs and job skills and retrain workers affected by changes in employment or in required job skills. Job training in South Carolina is delivered primarily through two systems, the secondary education system of the 92 local school districts with 55 area vocational centers and the 16 Technical and Comprehensive Education Colleges (TEC). In FY 83-84, the two systems had \$225 million in State and federal funds for training; the funds projected for FY 84-85 total \$240 million (not including funds from the Education Improvement Act).

The impetus for adjusting the curriculum and the authority for offering special training programs, such as Job Retraining Programs, rests with the local school districts and the TEC colleges. Further, the cooperation between vocational and technical education is also a local decision. A state-level memorandum of understanding between the directors of vocational and technical education, signed in 1982, acknowledges formally a commitment to support, coordination, and cooperation. Similar collaboration was encouraged for the local level, and approximately 80% of the school districts are estimated to have written cooperation agreements with their area TEC.

There is no State policy on training and no mechanism for coordinating the programs of agencies, school districts or TEC colleges. The organization of vocational/technical education provides great flexibility, but makes it

difficult to organize the State's responses to manpower training needs or to resolve questions of policy concerning the two systems.

Three of the Governor's task forces on the economic development of the State have recommended a State manpower policy and closer coordination of training to ensure that training occurs for job opportunities and needs, that retraining is available for marketable job skills, and that there is planned job skill upgrading. The State Advisory Council on Vocational and Technical Education has recommended a statewide study to examine the current delivery systems and to provide a combined plan for vocational and technical education.

The changes in technology and in the national and State economies have underscored issues in vocational/technical education which affect the ability of the State's systems to provide the manpower needed by business and industry. These issues also point out the need for a synchronized approach.

Levels of training appropriate to secondary vocational education and those appropriate to post-secondary occupational education need to be delineated. Some secondary/post-secondary programs will need to be fully articulated because of the time needed to master some highly technical subject areas. This requires that the content of vocational and technical programs be determined and the skill levels to be mastered be established.

The roles of the vocational and the technical systems in adult vocational education also need to be outlined. Of the federal funds for vocational education, 15% are set aside for adult vocational education. This amounted to \$1.7 million of \$11 million in FY 83-84. The division of these funds between the Department of Education and the State TEC

Board, 8% to the Board and 7% to the Department, has been based on a long-standing agreement between the two groups. The vocational education bill recently passed by Congress places greater emphasis on adult retraining. The use of funds for adult vocational education and their allocation need to be reviewed in light of a State policy on manpower training.

The functions of Special Schools (see p. 58) should be included in the policy and the responsibilities of the two systems defined. The legislated mandate for Special Schools, tailor-made, job specific training to meet the start-up and expansion needs of individual companies, is given to the TEC system. Nevertheless, on at least one occasion, an area vocational center conducted a "special school" for a new industry.

The State receives other federal funds for training through the Job Training Partnership Act (JTPA). Annual funding for JTPA is expected to continue at the current level of \$40 million. The program provides funding for employment training for the disadvantaged, the dislocated worker and youths. While the State's primary delivery systems are vocational education and TEC, any State policy on manpower training which did not include JTPA would be incomplete.

The State needs to formulate a policy on manpower training and establish a mechanism for synchronizing the programs of agencies, school districts and TEC colleges. In addition, State and federal funding to school districts and TEC colleges should support and encourage compliance to the manpower training policies.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER APPOINTING A PERMANENT COUNCIL ON MANPOWER TRAINING TO DEVELOP A STATE POLICY. THE COUNCIL SHOULD CONSIST OF THE CHAIRMEN OF THE STATE BOARDS OF EDUCATION AND TECHNICAL AND COMPREHENSIVE EDUCATION, AND BUSINESS MEN AND WOMEN FROM VARIOUS BUSINESSES/INDUSTRIES AND LOCATIONS AROUND THE STATE. AN ADVISORY GROUP SHOULD ALSO BE APPOINTED COMPOSED OF THE DIRECTORS OF TECHNICAL AND COMPREHENSIVE EDUCATION, VOCATIONAL EDUCATION, JTPA AND THE EMPLOYMENT SECURITY COMMISSION.

Information Available for Planning Voc/Tec Programs

Planning for future employment/training needs and evaluating existing programs require reliable information on current and future employment demands and on the placement of vocational/technical students. Much job and placement information is collected in South Carolina, yet the State lacks some of the data needed for the development of training programs to meet available job opportunities and emerging employment trends. Problems with methodology and/or scope of employment demand information gathered by the Employment Security Commission, school districts and TEC colleges limit the usefulness of the information.

Employment Demand Information

Current employment demand information is gathered and projections of future demands are made in compliance with federal regulations by the Employment Security Commission. The occupational projections for the State and its standard metropolitan statistical areas of Greenville-Spartanburg, Columbia, and Charleston-North Charleston are prepared under a program of the United States Department of Labor. The choice of data included and the economic and business assumptions used have affected the degree of usefulness of the data. Further, while the data can be disaggregated from the State level, the further it is disaggregated, the less useful it is at the local level for program planning purposes.

A number of problems have been found which affect the degree of usefulness of the employment demand data provided by the Employment Security Commission. The data does not include the capability to identify and estimate future demand for new and emerging occupations. Replacement needs due to labor turnover are not included, nor is the demand for agricultural workers. Employment demand in areas contiguous to South Carolina, in which a number of the State's workers find jobs, is not included.

In addition to the problems discussed above, the data becomes less and less useful as it is disaggregated to the local level. Employment demand and projections of demand are based on industrial makeup, the ratios of particular jobs within industries, and population characteristics. Different sectors of the economy are surveyed for information in a three-year cycle. The changes during that time, caused by a plant closing, have little effect on statewide employment demand, but can

have great impact on demand in a particular county. The statewide data, then, is of little use at the local level for program planning purposes.

Local Assessments of Employment Demand

Given these problems with ESC data, both the vocational and technical education systems rely on local assessments of employment demand. The Department of Education has guidelines for performing such studies, but the school districts are not required to follow them.* Further, there is no on-going systematic job demand check performed by the TEC colleges. Information gathered on job demand is reported by TEC colleges only when a new program is proposed and by school districts only when they wish to offer a course not already approved by the State Board of Education or when they request equipment funds. As a result, the information gathered by local assessments is not standardized or on-going; therefore, the data cannot be used on a statewide basis.

Student Placement Information

Student placement information is gathered to obtain a representative idea of what happens to students after they leave a vocational/technical program. It can provide a method for evaluating course offerings and give an indication of employment demand. The federally required follow-up study of completers and leavers of the vocational/technical

*Regulations for implementing the Education Improvement Act now require school districts to conduct a vocational needs assessment utilizing the Department of Education's guidelines.

programs has not provided data which can be used for planning or evaluating programs.

Vocational and technical program completers and leavers in half of the vocational system and 20% of the TEC system are surveyed annually to obtain information on jobs, salaries and training quality. This means that placement data is only obtained on a given school every other year, and on a college every fifth year. In addition, the response is so small, representing 15%-20% of all vocational students and 3%-4% of all TEC students, that the data cannot be used in planning.

Attempts have been made by both the technical and vocational education systems to overcome the problems in the federal follow-up study. For the last four years, the TEC colleges have conducted another follow-up study which covers all graduates of all the TEC programs each year. However, the method of data collection is left up to the discretion of the colleges, and no information is collected on program leavers. Vocational education, in the Spring of 1984, also began an additional follow-up. All completers and leavers are now surveyed every year.

State and local education agencies must take further steps to organize and collect employment demand and student placement information before reliable data will be available for decision making on this \$225 million program. One option would be to build on the available Employment Security Commission data, collecting employment demand information locally and then aggregating it to the State level. This additional information could be collected by the TEC colleges with cooperation from the local school districts. As an on-going program with uniform methodology, this would provide immediate access to pertinent information at the local, regional and State levels.

RECOMMENDATIONS

THE EMPLOYMENT SECURITY COMMISSION, THE STATE TEC BOARD, THE DEPARTMENT OF EDUCATION, AND THE DIVISION OF EMPLOYMENT AND TRAINING OF THE GOVERNOR'S OFFICE SHOULD FORM A WORKING GROUP TO DETERMINE THE MANNER IN WHICH JOB DEMAND INFORMATION AND PROJECTIONS CAN BE COLLECTED FOR USE BY DECISION MAKERS AT LOCAL, REGIONAL AND STATE LEVELS.

THE TEC SYSTEM SHOULD STANDARDIZE THE METHODS COLLEGES USE IN THE STUDENT FOLLOW-UP STUDY. PROGRAM LEAVERS, AS WELL AS PROGRAM GRADUATES, SHOULD BE INCLUDED.

Special Schools

With the creation of the technical education system in 1961, the State established Special Schools to provide short-term, preemployment training in support of new and expanding industry and business. The training program is designed, like tax and finance incentives, to help reduce start-up costs and enhance profit potential during the first few years of a company's operation, and so attract industries to South Carolina. Currently, the State is not offering Special Schools as an incentive to nonmanufacturing industries.

Special Schools are limited by State TEC Board policy to manufacturing processes. The assistance is given when new jobs are created by the

location of a new facility or the expansion of an existing one, or if a change in product line requires a new set of skills. The training involves tailoring instruction to the particular process, equipment and materials used by a company. Prospective employees are recruited, screened and tested in conjunction with the Employment Security Commission. The Schools are conducted at no cost to the company, and the hiring of the trainees is at the company's discretion. In FY 82-83, 73 companies used the program, and 4,967 workers received training. Expenditures for the direct and indirect costs of the Schools were \$2.7 million, \$538 per trainee.

The General Assembly has mandated that Special Schools be "closely coordinated with the State's economic development efforts" (Sections 59-53-20 and 50 of the South Carolina Code of Laws). In the 1960's and 1970's, as South Carolina's economy moved from agriculture to manufacturing, the scope of the Special Schools met the training needs of the State's labor force and served as an incentive to the economy. Today, the State's economic base is diversifying, with the growth of service and commercial industries and due to technological innovations. If Special Schools are to remain an important incentive in the State's economic development, the scope needs to be expanded to include nonmanufacturing industries. Thirty-nine states now offer some form of recruitment and training for specific industrial development needs. A survey of seven southern states offering training incentives similar to the Special Schools found five states train in some nonmanufacturing and "service" areas.

Discussions on enlarging the scope of the Special Schools have been underway since 1981. The State TEC Board is considering proposals

for broadening the criteria for providing the program as a part of the system's overall "strategic plan" for the future. The Industrial Services staff, which carries out the program, is at capacity. By January 1984, there were 102 commitments for Special Schools for the year. The funding for the program is also at capacity; therefore, enlarging the Special Schools' scope will require a greater commitment of resources.

Predicting the cost to the State for providing this incentive to nonmanufacturing industries is difficult. Demands for the Special Schools depend on the national and State economies. With Special Schools, however, the cost of the program can be offset by the tax revenues from increases in trainees' pay and the additional revenues from the new or expanded companies. As shown in Table 7, the average cost of a Special School has ranged from \$24,300 to \$36,600 during FY 79-80 to FY 82-83. A study by the Spartanburg Chamber of Commerce reported first-year State and local taxes in that area on a particular textile mill, metal fabrication shop, and chemical plant to be approximately \$1.2 million, \$650,000, and \$4 million respectively.

TABLE 7
SPECIAL SCHOOLS AVERAGE COST FOR TRAINEES AND COMPANIES

Fiscal Year	Cost		Total Number of Trainees	Average Cost/Trainee		Number of Trainees Per Company	Average Cost/Company	
	Direct Cost ^a	Direct & Indirect Cost		Direct Cost ^a	Direct & Indirect Cost ^b		Direct Cost ^a	Direct & Indirect Cost ^b
78-79	\$ 421,337	\$1,387,106	2,591	\$163	\$535	55	\$ 7,661	\$25,220
79-80	772,625	1,947,680	3,545	204	545	80	9,033	24,346
80-81	933,401	2,415,217	3,791	246	637	77	12,122	31,366
81-82	1,159,635	2,739,873	4,708	246	582	91	12,743	30,108
82-83	1,056,589	2,669,853	4,967	213	538	73	14,474	36,573

^aIncludes instructor, supplies, materials, site preparation, course development and advertisement for trainees.

^bAlso includes industrial representatives and all their activities.

Source: State Board for Technical and Comprehensive Education.

RECOMMENDATION

THE STATE BOARD FOR TECHNICAL AND
COMPREHENSIVE EDUCATION SHOULD REDEFINE
THE SCOPE OF SPECIAL SCHOOLS TO ALLOW
NONMANUFACTURING INDUSTRIES TO QUALIFY
FOR THIS DEVELOPMENT INCENTIVE.

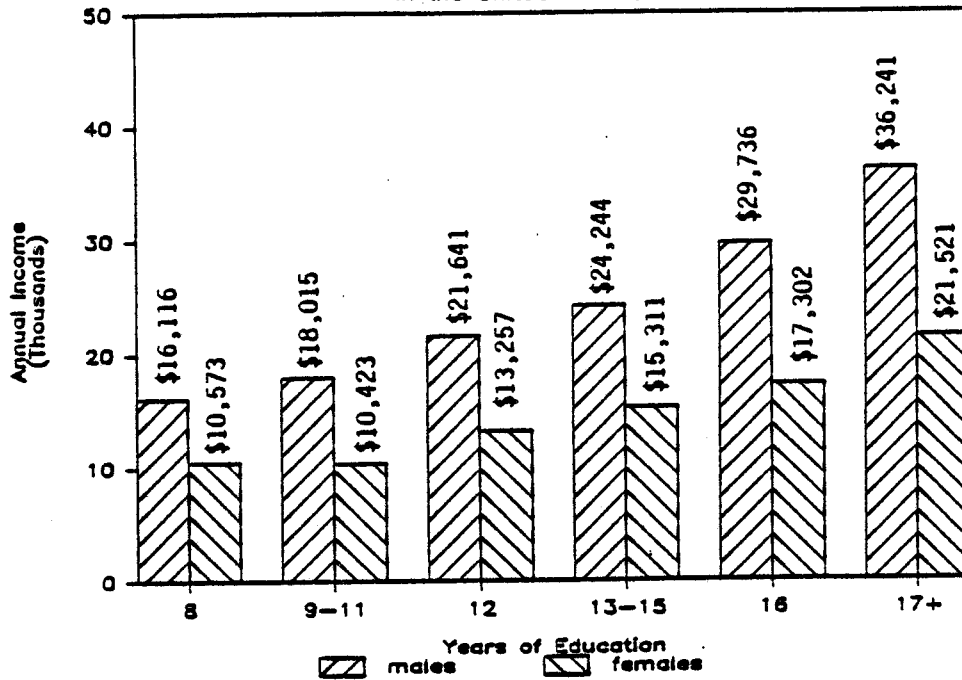
Adult Education Program

According to surveys of business executives and studies of "business climates," an important factor in the location of an industry is the training and education levels of the work force. Education impacts on the State's economy in other ways, since it affects income levels and unemployment rates (see Tables 8 and 9). In addition, research indicates that education levels of parents affect the school achievement of their children.

Although the education level of the State's labor force has improved since the 1970's, South Carolina continues to have a large undereducated population. The high school nongraduate rate for 1981, given as a percentage of ninth grade enrollment four years earlier, shows 31.2% did not graduate. The number of adults, 18 years old and older, with less than eight years of education (468,670) is higher than the number of students currently enrolled in grades one through eight. Of the population in the State 18 years old and older, at least 38% (825,760) lack a high school education.

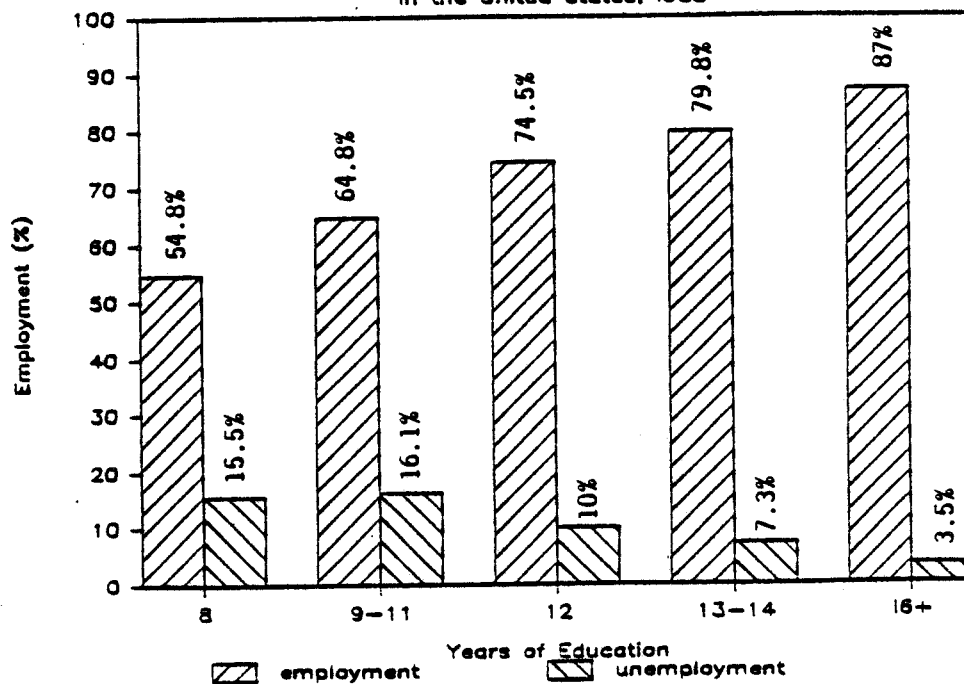
Ninety percent of the work force for 1990 and 75% of the work force for the year 2000 are already a part of the adult labor force.

TABLE 8
Education and Average Income
in the United States, 1981



Source: U.S. Department of Commerce

TABLE 9
Education and Employment
in the United States, 1983



Source: U.S. Department of Commerce

The future education level of the State's labor force, therefore, is directly affected by the Adult Education Program, which provides instruction from basic reading and writing through attainment of a high school diploma. In FY 82-83, \$3.7 million in State and federal funds were spent on the program in which 73,626 adult students participated. Of these, the school districts served 45,836 adult students and received 80% of the funds (see Table 10). However, the educational opportunities available to the adult population are hindered by problems with standards and funding for the Adult Education Program.

TABLE 10
STATE AND FEDERAL FLOW-THROUGH FUNDS FOR ADULT EDUCATION
FY 82-83

<u>Program</u>	<u>Number of Funded Pupils</u>	<u>Amount of Funding</u>	<u>Funding Per Pupil</u>
Department of Corrections	3,929	\$ 146,577	\$37.31
TEC	13,814	373,371	27.03
Vocational Rehabilitation	4,881	141,101	28.91
School Districts	45,836	2,992,615 ^a	65.29
Literacy Association	5,166	89,878 ^b	-
TOTAL	73,626	\$3,743,542	\$50.85

^aAmount includes \$505,054 for full-time directors' salaries.

^bUsed for training tutors and administrative salaries in this volunteer program.

Source: Office of Adult Education, State Department of Education

Adult Education Standards

State law does not require any State or local agency to provide adult education. A school district "may" raise and allocate funds for such a program. The State Board of Education "may" make and enforce rules and regulations for the organization, conduct, and supervision of adult education (Sections 59-43-10 and 20 of the South Carolina Code of Laws). The requirement for an adult program in school districts is a part of the State Board's Defined Minimum Program (DMP), the regulations outlining the minimum acceptable educational program. However, there are few service standards delineated for the program. Since there are few standards, the authority for determining the district resources to be used in support of the program rests with the district superintendent.

The DMP states that each school district shall provide adult education on two levels, basic (grades 1-8) and high school (grades 9-12). There are no service standards required by the DMP for the basic education program and few standards which a district must meet for its adult high school program. Access to vocational training is only recommended. There are no requirements as to the number of class meetings that a school district must offer. To be counted for funding by the districts, however, students must have attended 12 hours of classes.

For an indication of district involvement in adult education, the Audit Council compared each county's adult education enrollment to the number of persons 25 years and older with less than nine years of education. Service levels ranged from a low of 1.7% to a high of 25%, with an average of 10% of these adults served in the State's counties. Less than 5% of the undereducated adults were served in seven of the counties (15%).

Little information on district support for adult education is collected by the Office of Adult Education. Information on the level of district financial support is not reported, so total expenditures for the programs are not known. District's financial support cannot be determined from the general district financial records submitted to the Department.

Funding for Adult Education

State and federal support for adult education has declined in the last two years, FY 81-82 and FY 82-83. Therefore, the per-pupil support for the program has decreased from \$58.78 to \$50.85. Funds are prorated to the districts based on their prior year's enrollment. There is a disincentive, then, for districts to recruit more adults, since increasing enrollments mean there is less funding per student. Further, when a district has used all of its prorated State and federal funds, it can simply stop the adult classes. This is because a district is not required to use local funding in support of the program, and there are few service standards with which a district must comply.

With the FY 82-83 funding level of \$50.85 per student, 32 students need to be enrolled to generate sufficient funding for a class for credit toward a high school diploma (see Table 11). However, the maximum number of students allowed in adult classes by the DMP is 30. It is possible, then, that funding is inadequate to support the program. However, until the data is collected and a comprehensive cost study is performed, this cannot be confirmed.

TABLE 11
ADULT EDUCATION PAYMENT PER HOUR OF INSTRUCTION

Teacher's salary	\$10.00
Materials and supplies	1.00
Other costs	2.00
Fringe benefits and indirect costs	<u>.50</u>
TOTAL	\$13.50

Source: Office of Adult Education, State Department
of Education.

For FY 84-85, \$950,000 has been added to the Adult Education Program's funding. Based on the FY 82-83 enrollment figure, this would provide \$12.90 per student in additional funds. Along with increases in teachers' salaries and district directors' salaries, the additional funding includes \$510,000 (\$6.92 per pupil) for additional hours of instruction or for providing smaller classes.

State funds for the program are returned to the State through increased taxes paid by its graduates. In FY 82-83, 7,400 adults obtained a high school diploma or completed the GED through the Adult Education Program. Considering only these enrollees, State funds for the program amounted to \$353.16 per graduate. If these graduates received the increases in average income shown in Table 8 (see p. 62), the State income taxes paid by each graduate increased by approximately \$200 per year. Therefore, for every \$1 the State invested in adult education, 56 cents was returned to the State in increased tax revenues in the first year.

Conclusion

Because of the importance of adult education to the economic development of South Carolina, steps should be taken to ensure an effective program. In order to attract more adults into the program, a statewide television and radio advertising campaign should be undertaken. The responsibility for the Adult Education Program needs to be more clearly assigned with school district financial support required for the program.

RECOMMENDATIONS

THE DEPARTMENT OF EDUCATION SHOULD UNDERTAKE A STATEWIDE TELEVISION AND RADIO ADVERTISING CAMPAIGN TO INFORM AND ATTRACT ADULTS TO THE ADULT EDUCATION PROGRAM.

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING SECTION 59-43-10 OF THE SOUTH CAROLINA CODE OF LAWS TO REQUIRE A LEVEL OF SCHOOL DISTRICT FINANCIAL SUPPORT FOR ADULT EDUCATION.

THE STATE BOARD OF EDUCATION SHOULD INCLUDE IN THE DEFINED MINIMUM PROGRAM SPECIFIC REQUIREMENTS FOR DISTRICT RESOURCES TO BE AVAILABLE FOR THE ADULT EDUCATION PROGRAM. SUCH SERVICE STANDARDS AS NUMBER OF CLASS MEETINGS REQUIRED SHOULD ALSO BE INCLUDED IN THE DMP.

THE DEPARTMENT OF EDUCATION SHOULD ADJUST
PAYMENTS OF FUNDS FOR ADULT EDUCATION TO
SCHOOL DISTRICTS DURING THE YEAR, BASED
ON THE CURRENT YEAR'S ENROLLMENT LEVELS.

THE DEPARTMENT OF EDUCATION SHOULD COLLECT
AND ANALYZE INFORMATION ON DISTRICT SUPPORT
FOR ADULT EDUCATION AND ACTUAL COSTS OF
THE PROGRAM.

CHAPTER IV
PREPARING FOR ECONOMIC DEVELOPMENT

Introduction

For development to occur, the prerequisite infrastructure, such as industrial sites, adequate water and sewer service, fire protection, and transportation, must be made available. Therefore, improvement of the State's economy is keyed to the activities of local governments in developing the resources their areas have to offer to business and industry and to efforts of the State to ensure that the resources are effectively managed, so future needs can be met. During its review, the Audit Council found that:

- State laws governing local government authority and defining the scope of cooperation among local entities do not promote joint planning and funding of economic development activities.
- Public transportation, used successfully in some areas of the State, has not been studied as an economic development option.
- Although it is estimated that \$1 billion is needed in the next 15 years for water and wastewater facilities, no funding options have been developed to assist local governments.
- The State has no comprehensive water management plan to ensure adequate distribution to meet future needs.

Local Governments and Economic Development

Planning for economic development and promoting an area for business location requires an expensive and long-term commitment, involving long-range planning. Yet, rather than working together for development, local governments are rivals for the industry and business seeking a location.

The State has 268 municipalities, 46 counties, and approximately 100 local economic development organizations and 180 special purpose districts

with some type of responsibility and authority for planning and development. State laws governing local government authority and defining the scope of cooperation among local entities do not promote joint planning and funding of economic development activities.

Prior to the 1975 revision of the State Constitution establishing Home Rule, counties were restricted in the services they could supply. In order to provide such services as water, sewer and fire protection, special purpose districts were created. Although counties can now supply these services, special purpose districts continue to exist. If county residents wish to consolidate services, however, the procedures for doing so are cumbersome.

The 1975 revision to the Constitution also, for the first time, provided for the consolidation of local governments. However, the State has no legislation which establishes the procedures for implementing such consolidation.

There is legislation which allows local governments to work together on projects. Section 6-1-20 of the South Carolina Code of Laws permits local governments to enter into contractual agreements to provide facilities and services considered mutually desirable. Joint efforts for development are not encouraged by this arrangement, however, since the revenues derived from such an effort, property taxes, cannot be shared.

Michigan's Urban Cooperation Act encourages local governments to work together for development by allowing the sharing of benefits of new industries or of the retention of existing industries. The Urban Cooperation Act was amended in 1981 to allow local governments to share revenues received from property taxes, when a joint effort is initiated to provide for the administration and costs of activities or

facilities considered mutually beneficial. Michigan's law requires a contract between the involved local governments explaining the purpose and duration of the agreement, the responsibilities of each participant as to capital and/or services to be provided and the provisions for the return on investment.

For example, the City of Lansing and the Township of Meridium have entered into a contract to construct a high technology park in Meridium, with funding for the project provided jointly. The contract stipulates that once property taxes are realized, Lansing will receive 10% of the revenues. Further, Lansing will have 50% of the employment opportunities generated from the park.

In South Carolina, manufacturing plants draw their labor force from approximately a 30-mile radius around the facility. Therefore, several counties and numerous municipalities benefit through employment from the establishment of a plant and would suffer should one close.

According to the United States Department of Commerce, viable economic areas do not follow established political boundaries. There is no county in South Carolina, or in the United States, that is a viable economic unit containing all the factors for economic growth. The Department of Commerce has found that South Carolina has seven economic regions. These were delineated using commuter patterns and take into account industry relationships. A study undertaken by the College of Business Administration at the University of South Carolina in 1981 agreed with the regions delineated by the Department of Commerce (see Map 1).

SOUTH CAROLINA ECONOMIC DEVELOPMENT REGIONS
BASED ON EMPLOYMENT AND INDUSTRIAL RELATIONSHIPS



At the very least, then, economic planning should take place at the county level with an understanding of the significance of the impact of the economic region and the county's relationship to it. This is not

likely to occur without mechanisms encouraging local governments to act jointly in planning for an area's development and allowing them to benefit jointly from the activities. Unless this is done, development actions will be too expensive, or even counterproductive.

Further Constraint on Local Development Options

In a related issue, the State Supreme Court ruled on April 10, 1984 (Opinion No. 22082) that general obligation bonds could not be issued for the acquisition and development of industrial parks. The court found the purpose of industrial development did not satisfy the demands of the Constitution that a public purpose be served [Article X, Section 14(4)].

The dissenting justices held that industrial development was a valid public purpose for the issuance of bonds. Noting that Section 4-9-30(5) of the South Carolina Code of Laws authorizes counties to levy ad valorem (property) taxes and make appropriations for economic development, they pointed out that by using general obligation bonds, the cost of developing the industrial park would have been passed on to the industries locating there, avoiding an increase in taxes to the general taxpayers.

The inability to use general obligation bonds places further constraints on the options available to local governments considering economic development alternatives. While an industrial park is only one alternative for promoting economic development, the Industrial Development Research Council found that 40% of the manufacturing plants and 50% of the warehousing facilities in the United States are located in industrial parks.

RECOMMENDATIONS

THE GENERAL ASSEMBLY SHOULD CONSIDER
AMENDING SECTIONS 4-9-30, 4-9-80, 6-11-20 AND
6-11-30 OF THE SOUTH CAROLINA CODE OF LAWS
TO SIMPLIFY THE PROCEDURES FOR CONSOLIDATING
SPECIAL PURPOSE DISTRICTS.

THE GENERAL ASSEMBLY SHOULD CONSIDER
PROVIDING FOR CONSOLIDATION OF COUNTIES
WITH MUNICIPALITIES AND OTHER POLITICAL
SUBDIVISIONS AS PROVIDED IN ARTICLE VIII,
SECTION 12 OF THE SOUTH CAROLINA CONSTITUTION.

THE GENERAL ASSEMBLY SHOULD CONSIDER
PLACING IN REFERENDUM AN AMENDMENT TO
ARTICLE X OF THE SOUTH CAROLINA CONSTITUTION
TO PERMIT AD VALOREM TAXES DERIVED FROM
JOINT EFFORTS FOR ECONOMIC DEVELOPMENT TO
BE SHARED.

THE GENERAL ASSEMBLY SHOULD CONSIDER
PLACING IN REFERENDUM AN AMENDMENT TO
ARTICLE X OF THE SOUTH CAROLINA CONSTITUTION
PROVIDING FOR GENERAL OBLIGATION DEBT FOR
ECONOMIC AND INDUSTRIAL DEVELOPMENT, AND
ESTABLISHING ECONOMIC DEVELOPMENT AS A
PUBLIC PURPOSE.

Public Transportation as a Development Option

The availability of labor has been a key ingredient to South Carolina's economic growth and is likely to increase in importance in the future. An industry is not likely to locate a facility where the supply of labor is considered inadequate. In South Carolina, 46% of the population lives in less densely populated, "rural" areas. The scarcity of labor or of certain skills can be a major hindrance to an area's economic development. Without ample labor to attract industry, an area can be caught in an unfortunate economic cycle. A narrow tax base makes it difficult to build an area's infrastructure to attract new industry, and lack of employment further erodes the tax base and the supply of labor.

One method used successfully in some areas of the State as a means of alleviating this problem is the movement of workers through a public transportation system. Public transportation offers a way to enlarge and access one area's labor force, while providing employment to another area's workers and maintaining the options of rural and urban life.

The Low Country Regional Transportation Authority (formed by Beaufort and Jasper counties and joined by Hampton, Colleton and Allendale counties) transports 90% of the workers at Hilton Head to the island. This makes the tourist industry possible in this area and benefits the tax base of Beaufort County, while the income of the employees goes back into the areas in which they live. Similarly, the public eleemosynary transit authority of Georgetown and Horry counties and the Williamsburg County transportation system move workers from the interior to the coast to work at the hotels and attractions of the Grand Strand.

The State has not taken steps to determine if public transportation offers a viable economic development option for other areas of the State. In 1977, the Legislature added to the mandate of the Highway Department by making it the Department of Highways and Public Transportation (DHPT). The legislation states:

Adequate and efficient public transportation is essential to the growth of the urban and rural areas of the State and the well being of its people... The State should have a general public transportation policy to encourage... transportation systems... (Act 82 of 1977).

It was not until 1983, however, that DHPT formed a Division of Public Transportation and appointed a director to the Division. There has been no statewide assessment of the need for public transportation or of the financial commitment local governments would be willing to make to such systems. Currently, the Division is planning to determine the needs of local areas and to consolidate them into a State plan for public transportation.

Past studies of public transportation needs in the State have generally focused on the low income and handicapped citizens. As stated on page 72, studies show there is a large amount of transference of services and goods within each of the State's economic regions. Eighteen percent (18%) of the work force commute to work outside the county of their residence. The DHPT needs to provide information on the established and developing flows of workers, along with other data, so that public transportation can be considered as an economic development option.

The ten existing public transportation systems in the State fall into three categories: county operated, utility operated, and those operated under regional transportation authorities. The systems use all

combinations of vehicles and services - vans and buses to provide fixed route, demand-response and subscription service. Regional transportation authorities (RTA) can cover an area as large as a Council of Government's planning region and the counties contiguous to it. The legislation creating the regional authorities (Sections 58-25-10 through 80 of the South Carolina Code of Laws) needs to be amended, as there is no funding mechanism included. Providing a funding mechanism would allow greater funding options to local governments.

For the first time, State funds have been appropriated for public transportation. The FY 84-85 Appropriation Act contains \$600,000 to assist local governments with public transportation needs. A study by the Governor's Office in 1980 of 36 socioeconomically distressed communities in the rural areas of the State found that 50% lacked the means to get the population to employment or to social services. The average distance to services was more than 13 miles. If public transportation enabled 5% (2,484) of the heads of families receiving Aid to Families with Dependent Children (AFDC) to gain employment, the State share of AFDC would be reduced by \$1 million, and the State and local governments would gain in increased disposable income and taxes.

Section 37 of the FY 84-85 Appropriation Act authorizes the DHPT to develop a public transportation plan and policy for the State. DHPT should give priority to the study of transportation needs and local commitments to it. The study should also include an examination not only by county, but also by economic region of the State.

Coupled with the tax revenue sharing plan proposed earlier (see p. 74), public transportation can offer local governments a method of sharing human, as well as other, resources in order to develop their

regions for economic activity. Federal funds allotted to South Carolina for public transportation programs, which are not obligated or have not been requested as of July 1984, total \$12 million. These funds generally require a 20% match for use for capital outlay and a 50% match for operations.

RECOMMENDATIONS

THE GENERAL ASSEMBLY SHOULD CONSIDER
AMENDING SECTIONS 58-25-10 THROUGH 58-25-80
OF THE SOUTH CAROLINA CODE OF LAWS TO
ESTABLISH A METHOD FOR FUNDING THE
OPERATIONS OF REGIONAL TRANSPORTATION
AUTHORITIES.

THE PUBLIC TRANSPORTATION DIVISION OF THE
DEPARTMENT OF HIGHWAYS AND PUBLIC TRANS-
PORTATION SHOULD INCLUDE IN ITS ASSESSMENT
OF PUBLIC TRANSPORTATION NEEDS AN ANALYSIS
OF WORKER COMMUTING PATTERNS BY REGION,
AS WELL AS BY COUNTY.

Water and Wastewater Facilities

There are approximately 500 public community water and wastewater facilities in South Carolina. A 1982 needs survey, conducted by the Federal Environmental Protection Agency, estimates \$1 billion is needed for the construction and/or rehabilitation of wastewater facilities within

the State in the next 15 years. Further, an additional \$425.7 million will be needed for water supply systems to meet water demands by the year 2000, according to a study conducted by Clemson University. For the State to continue its economic development, water supply demands and wastewater facility needs must be met.

Local governments can either increase taxes or issue bonds to raise the needed capital for water and wastewater facilities. However, the amount of capital needed for such projects can exceed the financial capabilities of local governments.

State and federal aid for water and sewer projects has not grown with the need. Funding for the State's Rural Water and Sewer Grant Program, administered by the Department of Health and Environmental Control (DHEC), has been available in the past to communities with populations of 1,500 or less. However, this program received no State appropriations for FY 81-82 through FY 83-84. For FY 84-85, the General Assembly appropriated \$60,000 for aid to municipalities and provided an additional \$400,000 in a supplemental appropriation.

Other State funds which can be used for water and sewer projects are available through the rural improvement program of the Local Government Division of the Budget and Control Board. Since FY 80-81, 50% of the total funds of the Division have gone to fund such projects, an average of \$2.1 million each year in the last four years. In FY 84-85, an additional supplemental appropriation of \$250,000 was provided for rural water projects.

Federal assistance for wastewater facilities has been reduced in FY 84-85. The federal share of costs has been cut from 75% to 55% for construction grants, with an allowance for planning and design of

wastewater facilities. Further, only current needs will be funded instead of those based on a 20-year projection. The program provided \$51.5 million for projects in FY 83-84, including funds carried over from previous years. It received 123 requests for grants for wastewater facilities. Only 20 new grants were awarded due to the lack of funds.

To aid local governments in meeting the costs of needed water and wastewater facilities, several options have been developed in other states. Thirty-nine states have implemented loan and/or grant programs. Five states have established state bond banks, which sell their own revenue bonds and use the proceeds to buy local government bonds. Legislation has been proposed in New Jersey to establish an Infrastructure Bank, which would combine all federal and state monies available for water and wastewater facilities. In return, the Bank would make no interest or low interest loans to local governments. Eventually, the Bank would operate solely from a revolving fund.

The need for funding for water and wastewater facilities is apparent in South Carolina. DHEC has found 18% of the wastewater facilities in the State are not in compliance with State and federal clean water standards and an additional 32% are under a permit compliance schedule or DHEC order to meet these standards. Many local governments do not have finances available to construct the needed water and wastewater facilities. Joint planning and funding of economic development projects could make some construction possible, but some form of State assistance is needed.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD EXAMINE
ESTABLISHING A BOND BANK AND/OR AN INFRA-
STRUCTURE BANK TO AID LOCAL GOVERNMENTS
IN THE FINANCING OF WATER AND WASTEWATER
FACILITIES AND IMPLEMENT A PROGRAM OF
FINANCIAL ASSISTANCE TO COMMUNITIES.

Statewide Water Management Plan

South Carolina has the available water resources to meet both current and future needs if the resources are effectively managed. However, the State has no comprehensive water management plan to ensure there is adequate distribution of water resources, both surface and groundwater, to meet future needs.

The demands on the sources of the State's water for water and wastewater facilities are growing. The State's population has increased by 20% in the last ten years; the State is more urbanized and industrialized, and the tourist industry has grown along the coast. Between 1970 and 1980, the State's grosswater use almost doubled, and by 2020, statewide use is projected to increase by another 48%.

The basis for governing water use in South Carolina is the reasonable use doctrine, under which everyone has the right of reasonable use of water on or below the surface of his land. The extent of reasonable use, however, is not defined by statute and, according to officials at the Water Resources Commission, case law is insufficient to provide a basis for judging contemporary water use. Today, reasonable water

usage involves such considerations as pollution and depletion of rivers and ground water, and interbasin transfers of water.

The Hilton Head-Beaufort area is already facing a problem because of increasing demands on the water from its aquifer. If the aquifer's level is lowered too much, salt water contamination will occur. Estimated costs for tapping a ground water source further inland are \$23 million, or \$100 million for tapping the Savannah River. The Grand Strand area has a similar problem with the demands on its aquifer.

The potential exists for water use conflicts in the upper piedmont area of the State. Water demands are growing rapidly in the area, and there is limited surface and ground water available. In the near future, Greenville will be drawing water away from one river basin to another. Water will be drawn from the Savannah River Basin through Lake Keowee, but will be returned to the Saluda River of the Santee-Cooper Basin. Without the proper management of such transfers, water use conflicts, including water shortages, may result.

The first step toward a statewide water management plan is the Water Use Reporting and Coordination Act, implemented in July 1983. Every user of 100,000 gallons or more of water a day must file a water use report with the Water Resources Commission. This establishes a mechanism for monitoring the usages of water by major users and provides the information needed to develop a State water management plan.

The Water Resources Commission is required by Section 49-3-40 of the South Carolina Code of Laws to assist the Governor and the General Assembly in formulating and establishing a comprehensive water resources policy for the State. South Carolina must be able to ensure the availability of water to industries and businesses now and in the future, if the

State is to continue its economic development. Therefore, a comprehensive water management plan is needed which includes enforcement authority to ensure the plan is carried out.

RECOMMENDATIONS

A COMPREHENSIVE STATEWIDE WATER MANAGEMENT PLAN SHOULD BE DEVELOPED BY THE WATER RESOURCES COMMISSION TO EFFECTIVELY MANAGE AND PROTECT SOUTH CAROLINA'S WATER RESOURCES.

THE PLAN SHOULD IDENTIFY, AT A MINIMUM, THE SOURCES AND QUANTITY OF AVAILABLE WATER AND THE SUPPLIERS OF WATER, THEIR AREAS OF RESPONSIBILITY AND WATER REQUIREMENTS.

THE GENERAL ASSEMBLY SHOULD CONSIDER APPROVING THE WATER MANAGEMENT PLAN AND DESIGNATE THE WATER RESOURCES COMMISSION AS THE STATE AGENCY TO ENSURE THE EQUITABLE DISTRIBUTION OF WATER.

CHAPTER V
ENCOURAGING OTHER DEVELOPMENT ACTIVITIES

Introduction

In reviewing economic development efforts in the State, the Council found there has been no coordinated effort to assess the actions needed to improve the performance and/or promote various components of the economy. In order for the State to develop a plan for directing activities encouraging economic development, a detailed needs assessment of all sectors of the economy is needed. Specific examples of problems found by the Council are summarized below and discussed in more detail in the following pages.

- Much of the State's forestry products are sent to other states for processing into consumer goods, yet the information necessary to promote these wood-using industries in the State has not been collected.
- The information needed to adequately promote mining in South Carolina has not been collected.
- The eligibility criteria for State financial assistance for agriculture may restrict some low and moderate income farmers from receiving assistance.
- South Carolina has the potential to become a major center for aquaculture activities, but a lack of recognition of aquaculture as a distinct industry, in laws and regulations, hampers its development.
- More management and technical assistance are needed from the Small Business Development Centers, but cannot be provided without additional resources.
- Additional State programs are needed to encourage companies with export potential to export their products.
- The Jobs-Economic Development Authority is limited in the financial assistance it provides to small businesses and currently has no source of income to expand its programs.

Promotion and Protection of Forestry

Introduction

South Carolina's forest land encompasses 12.5 million acres, or 65% of the land surface of the State. In 1981, revenues generated from forestry-related industries totaled \$2.5 billion, making forestry the State's third largest industrial component, behind textiles and chemicals. Much of the State's forestry products, however, are sent to other states for processing into consumer goods. This results in lost revenues and jobs to the State, yet the information necessary to promote value-added, wood-using industries has not been collected. Furthermore, the lack of reforestation by private landowners could affect the revenues from the forestry industry in the future.

Information for Wood-Using Industry Promotion

The Forestry Commission estimates 40% of the State's pulpwood and 75% of the hardwood lumber are exported out-of-state and not processed into consumer goods in South Carolina. Much of the State's forestry industry is supplying the raw materials to secondary wood-using industries out of the State. Secondary industries are those which manufacture raw materials into finished consumer products, such as household furniture, paper and allied products, gum and wood chemicals.

Wood-using industries have been targeted as an industry to be sought by the Development Board. However, the information needed to effectively promote the State has not been researched. Information has not been collected on how South Carolina's wood is utilized in other states.

Secondary industries create a larger number of jobs and generate more revenue for the State than do primary industries. By not having the information needed to pursue secondary wood-using industries for South Carolina, the State loses potential value-added industries.

Reforestation Efforts

More than 12.5 million acres of South Carolina is forest land with approximately 73% owned by private nonindustrial landowners. The state or federal governments and industrial landowners have adequately reforested their land. However, private nonindustrial landowners do not sufficiently reforest land that is not put to other use.

The U.S. Forest Service's 1983 assessment of the pine resources in South Carolina found private nonindustrial landowners reforested less than one of every four acres they harvested. The forestry industry reforested eight of every ten acres. Between 1978 and 1983, 1.5 million acres of forestland were either harvested or diverted to other land uses, but only 819,200 acres were reforested.

The federal Forestry Incentives Program shares the costs of site preparation and tree planting with private nonindustrial landowners. In FY 82-83, these landowners in South Carolina received grants totaling approximately \$1 million. The General Assembly established a similar State program in 1981 in which each dollar of State funding is matched by a \$4 assessment on the forestry industry. In FY 82-83, the Forest Renewal Program funds totaled \$500,000. Private nonindustrial landowners may apply to both programs; however, reforestation funds can be received from only one source for the same acreage. In FY 82-83, requests for assistance from the two programs which could not be

funded totaled at least \$4 million. For FY 84-85, the Forest Renewal Program's funds have remained at \$500,000.

Demand for pine timber produced in South Carolina is expected to increase by 32% from 1981 to 1986, with an even greater demand expected by the turn of the century. In order to maintain and expand forestry and wood-using industries in South Carolina, efforts must be initiated now to ensure the availability of forest resources in the future. Since private nonindustrial landowners own 73% of the forest lands, they must be encouraged to reforest their lands after harvesting.

RECOMMENDATIONS

THE STATE DEVELOPMENT BOARD SHOULD WORK TO PROMOTE FORESTRY, SPECIFICALLY THE DEVELOPMENT OF SECONDARY INDUSTRIES IN SOUTH CAROLINA.

THE GENERAL ASSEMBLY SHOULD CONSIDER PROVIDING MORE FUNDING FOR THE FOREST RENEWAL PROGRAM IN SUPPORT OF REFORESTATION BY PRIVATE NONINDUSTRIAL LANDOWNERS.

THE FORESTRY COMMISSION AND THE CLEMSON EXTENSION SERVICE SHOULD EXPAND THEIR EFFORTS ADDRESSING THE NEED AND IMPORTANCE FOR REFORESTATION OF SOUTH CAROLINA'S FOREST LANDS BY THE PRIVATE NONINDUSTRIAL LANDOWNER.

Information for Mining Promotion

Mining is a basic and essential activity which makes an important contribution to the well being of the State. The United States Bureau of Mines' 1983 preliminary estimate for the value of nonfuel mineral production in South Carolina is \$235.5 million. The Land Resources Conservation Commission maintains permits for over 400 active mines in the State. South Carolina mines several categories of minerals, the majority of which are used in construction-related products such as brick, paint, high quality paper, glass, insulation and concrete.

Mining could be providing more jobs and generating more revenues in South Carolina. The mining industry employed 1,700 in 1982, accounting for .2% of the nonagricultural employment in the State. Preliminary studies and tests conducted by the South Carolina Geological Survey, the United States Bureau of Mines and private geologists indicate the State may have several potentially commercial mineral deposits, including heavy minerals. The State has not yet tested for the quality and quantity of mineral resources. Therefore, the promotion of mining has been limited.

The South Carolina Geological Survey, under the direction of the State Geologist, is responsible for conducting field and laboratory studies for geologic mapping and mineral resources reporting. The Survey is investigating several potentially commercial mineral deposits in South Carolina. These include limestone, used in the desulfurization of industry chemical exhaust, silica sand and feldspar used in glassmaking, and flake mica used in the manufacture of electronic components. Studies conducted by the United States Bureau of Mines and private geologists have indicated the coast of South Carolina may also have commercial deposits of heavy minerals.

To properly promote mining, the market demand for minerals should be determined and the mineral resources must be identified. The Survey has not collected the necessary information to adequately promote mining in South Carolina. According to the State Geologist, very little is known about the potentially commercial deposits of minerals 100 feet or more beneath the surface. The Survey has performed some subsurface testing, as required in Section 13-5-30 of the South Carolina Code of Laws, and is currently working on Geologic and Mineral Resources Maps of South Carolina. However, due to the lack of resources, this has not been done on a full-scale basis.

After the State's mineral resources have been identified, and South Carolina's relative market position compared with other states is known, efforts to attract mining operations and to develop secondary mining industries can be implemented. A coordinated effort between the State Development Board and the Geological Survey should be initiated to market South Carolina's mineral resources.

The Land Resources Conservation Commission is responsible for enforcing the South Carolina Mining Act, which provides for the protection of the State's environment and for the subsequent beneficial use of mined and reclaimed land. The Act requires that all mining operations in the State be permitted. To obtain a permit, a reclamation plan must be submitted and approved, and a bond must be posted to ensure the land will be properly reclaimed. As part of a coordinated effort to promote mining in South Carolina, the Land Resources Conservation Commission should assist the Development Board and the Geological Survey by providing environmental and permitting information related to the mining industry.

RECOMMENDATIONS

THE SOUTH CAROLINA GEOLOGICAL SURVEY SHOULD COMPLETE ITS WORK ON THE GEOLOGIC AND MINERAL RESOURCES MAPS OF SOUTH CAROLINA. AFTER MARKET DEMAND FOR MINERALS HAS BEEN DETERMINED, THE SURVEY SHOULD INITIATE A SAMPLING AND SUBSURFACE TESTING PROGRAM TO DETERMINE POTENTIALLY COMMERICAL MINERAL RESOURCES IN SOUTH CAROLINA.

THE STATE DEVELOPMENT BOARD SHOULD WORK WITH THE SOUTH CAROLINA GEOLOGICAL SURVEY TO PROMOTE THE MINING OF MINERAL RESOURCES AND THE DEVELOPMENT OF RELATED INDUSTRIES IN SOUTH CAROLINA.

Promoting Agriculture

Introduction

In 1981, the latest year for which statistics are available, total cash receipts and other income for farms were \$1.3 billion. South Carolina farmers have faced increasing cash-flow problems and low income for three consecutive years. Weak domestic demand, sluggish export markets and surplus commodities resulted in low prices and further erosion of farm income, according to the State Budget and Control Board.

Liaison With Produce Market

The Department of Agriculture sends a staff person to New York for approximately one week each year during the season when South Carolina products are sold in the New York metropolitan area. This staff person acts as a liaison between South Carolina growers and New York buyers to promote the State's products and correct any problems that might occur in shipments. Agriculture officials would like to have the staff in New York for the entire season which lasts from May through August.

According to a Department of Agriculture official, the New York area is the largest single market for South Carolina produce, buying approximately 30% of the State's fruits and vegetables annually. However, the Department has not had the funds to keep a liaison in New York during the whole season.

North Carolina, Georgia and Florida are the State's competitors because their seasons and products are similar to South Carolina's. Florida's Department of Agriculture and Consumer Services has offices year around in New York and Chicago to promote Florida produce. North Carolina's Department of Agriculture sends marketing specialists to call on buyers and home economists to contact the news media in large northern cities. A Georgia Department of Agriculture official stated that Georgia does not have a liaison in New York because New York buyers come to Georgia's produce markets.

A liaison in New York could help South Carolina growers compete more effectively with growers from other states by increasing awareness of the State's products. For example, although Georgia is known as the "Peach State," South Carolina produced almost twice as many peaches as Georgia in 1982.

Department of Agriculture officials stated that the liaison would only need a place to leave and receive messages. The State Ports Authority has a permanent office in New York and Ports officials are agreeable to sharing it with the Department of Agriculture during the season.

The State's commodity boards assess their producers for operating funds to promote their products. These boards work within the Department of Agriculture and could contribute to the cost of the liaison.

Financial Assistance for Farmers

The South Carolina State Family Farm Development Authority was created by Act 179 of 1981 to provide low interest loans to low and moderate income farmers in the State. However, the eligibility criteria for Authority loans, prescribed by law, may restrict some low and moderate income farmers from receiving financial assistance from the Authority.

The Family Farm Development Authority is empowered to issue bonds to make loans for the acquisition of agricultural land, improvements and depreciable property to farmers of agricultural, livestock, timber, aquaculture and fishing products. However, the Authority has only recently hired staff, and no loans to farmers have yet been made.

The Family Farm Development Authority was created to assist farmers of the "beneficiary class." Section 46-47-20 of the South Carolina Code of Laws uses two income measures to define the farmers and farm families comprising the "beneficiary class." They must receive at least 60% of their combined gross incomes from farming operations within the State, but their adjusted gross income must be less than 125% of the median gross income of all households in South Carolina.

Using the 1980 census, the most recent year for which figures are available, the maximum adjusted gross income for a farmer or a farm family could not exceed \$18,435 to qualify for assistance from the Authority. Information is not available on median gross income of farmers and farm families in the State. However, census data shows the average total income for families in the State reporting farm self-employment income was \$25,736. This indicates the possibility that basing eligibility for loans on the median gross income of households may restrict some farmers from receiving needed financial assistance. Further, since 60% of the gross income of the farm family must come from farming operations, assistance is restricted for the farmer whose spouse works outside the farm to supplement income and contributes more than 40% of total gross family income.

Other states with farm financing authorities base eligibility for loans on the net worth (total assets minus total liabilities) of the farmer or farm family. Iowa, whose program is the model for the Family Farm Development Authority, and Illinois allow a farmer whose net worth does not exceed \$100,000 and \$250,000, respectively, to apply for loans.

The current eligibility criteria for loans may restrict some farmers from receiving needed assistance. Further, because many farmers operate on a cash basis, accurate reporting of income to the Authority may be difficult. The General Assembly should, therefore, consider changing the criteria so that eligibility is based on the net worth of the farmer or farm family. Since information does not currently exist on the net worth of the State's farmers, the Division of Research and Statistical Services and the State Tax Commission should be consulted to provide input in determining the allowable net worth of farmers for receiving assistance from the Authority.

RECOMMENDATIONS

THE DEPARTMENT OF AGRICULTURE SHOULD PROVIDE A NEW YORK LIAISON BETWEEN GROWERS AND BUYERS DURING THE ENTIRE SEASON.

THE DEPARTMENT OF AGRICULTURE SHOULD SHARE THE STATE PORTS AUTHORITY'S NEW YORK OFFICE DURING THE SEASON.

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING SECTION 46-47-20 OF THE SOUTH CAROLINA CODE TO DEFINE FARMERS OF THE "BENEFICIARY CLASS" BASED ON THE COMBINED NET WORTH OF THE FARMER, HIS SPOUSE AND DEPENDENTS. THE DIVISION OF RESEARCH AND STATISTICAL SERVICES AND THE STATE TAX COMMISSION SHOULD PROVIDE INPUT IN DETERMINING THE NET WORTH OF FARMERS ELIGIBLE TO RECEIVE ASSISTANCE FROM THE FAMILY FARM DEVELOPMENT AUTHORITY.

Aquaculture Issues

Introduction

South Carolina has the potential to become a major center for aquaculture activities in the United States. Besides its economic potential, aquaculture holds other advantages for the State. Aquaculture is a

clean industry which can employ the low-skilled and unskilled labor living outside the cities. Studies by the University of South Carolina indicate that aquaculture can create four indirect jobs for every one direct job, which exceeds the three-to-one job ratio of manufacturing industries.

Aquaculture is defined as "underwater agriculture," the controlled commercial cultivation of aquatic animals such as fish, shrimp, crawfish, clams and aquatic plants. Worldwide, aquaculture provides approximately 10% of the total fishery production annually; in the United States, aquaculture production accounts for only about 3% of all fish and shellfish that are domestically consumed. The United States currently imports over 60% of the seafood that it consumes.

With South Carolina's 180 miles of coastline, large expanses of salt and freshwater areas, and thousands of acres of agricultural lands suitable for pond construction, the State is prime for the development of aquaculture as a supplemental source of fish and shellfish products. However, several problems hamper development of aquaculture in the State.

Coordination of State Agencies

The Audit Council has identified 13 State agencies involved in either research, promotional or regulatory activities for aquaculture. Agencies conducting aquaculture research include Clemson University, the University of South Carolina, the Public Service Authority (Santee-Cooper), the Sea Grant Consortium and the Wildlife and Marine Resources Department. The Department of Health and Environmental Control, the Coastal Council, the Budget and Control Board, the Attorney

General's Office, the Wildlife and Marine Resources Department and the Water Resources Commission regulate aquaculture. Coastal Carolina and Horry-Georgetown Tech provide advisory services and training and the Department of Agriculture performs promotional activities.

Duplication of efforts and lack of coordination may occur because so many agencies are involved in aquaculture. The Sea Grant Consortium, composed of the State's major research and educational institutions, is responsible for coordinating research among the member institutions. However, there is no formally declared lead agency for the regulatory and promotional functions of State agencies involved in aquaculture.

Statutory Definition

Another impediment to its development is the lack of a statutory definition of aquaculture. As a result, laws and regulations of other industries are inappropriately applied to aquaculture. For example, legislation which restricts the importation of exotic species and regulates the transport and handling of animals in the public domain prevents aquaculturalists from cultivating non-native, but promising species and importing nursery stock for their enterprises.

Seasonal restrictions on some species also retard aquaculture development because the regulations were created for species in the wild, such as freshwater fish. Some regulations fail to recognize that aquaculture is a clean industry and instead, place inappropriate constraints on its development. Other regulations also do not take into account the unique requirements and working conditions of aquaculture.

In addition, permitting for many aquaculture activities lacks a streamlined mechanism, requiring considerable investments of time,

money and effort. This may serve as an entry barrier to individuals considering aquaculture investments. Six State agencies and two federal agencies are involved in the aquaculture permitting process.

Aquaculture may also need recognition in the tax code in order to establish appropriate investment and operational incentives. For example, Section 12-35-550 of the South Carolina Code of Laws exempts agricultural producers from paying sales tax on equipment, fertilizer and seed. Since aquaculture is not defined as a type of agriculture, the exemption does not apply.

Other Problems

Land use conflicts, particularly in the coastal areas, also hinder the development of aquaculture. Coastal areas available for aquaculture are also of interest to homeowners, real estate developers, commercial fishermen and environmental groups. Local governments need to be prepared to address these issues through their zoning laws and comprehensive plans.

Marketing strategies for aquaculture products also need to be improved. Marketing strategies are still dominated by casual sales where little information is used to determine a buying or selling price. If production increases in the future, other markets should be identified and developed in order to maximize industry profits. The absence of a systematic marketing strategy restricts the scale of aquaculture enterprises and limits an entrepreneur's commitment.

Mariculture, saltwater aquaculture, development is also restricted because the State does not allow leasing of tidal waters, although leasing of tidal bottoms for the cultivation of oysters, clams and other mollusks

is permitted. Under common law, coastal waters and the seabed are part of the public domain and the needs of the mariculturist for exclusive use or semi-exclusive use of tidal waters or bottoms are not protected. Several states, including Florida, California and Maine, have passed legislation which provides the mariculturist with a property interest in the form of leases, while placing restrictions to protect the interests of other groups who use tidal waters. Most importantly, these statutes allowing the leasing of tidal waters reflect the states' efforts to encourage the development of mariculture.

RECOMMENDATIONS

THE AGRICULTURE STUDY COMMITTEE OF THE GENERAL ASSEMBLY SHOULD APPOINT A COMMITTEE COMPOSED OF REPRESENTATIVES FROM THE AQUACULTURE INDUSTRY AND STATE AGENCIES INVOLVED WITH THE INDUSTRY TO EXAMINE AQUACULTURE ISSUES AND MAKE RECOMMENDATIONS TO THE GENERAL ASSEMBLY. THE COMMITTEE SHOULD:

- 1) REVIEW THE STATE AGENCIES INVOLVED IN AQUACULTURE, DETERMINE THEIR RESPONSIBILITIES AND NAME LEAD AGENCIES IN THE AREAS OF AQUACULTURE REGULATIONS AND PROMOTION.
- 2) ENSURE THAT COORDINATION EXISTS BETWEEN THE STATE AGENCIES AND THAT NO EFFORTS ARE DUPLICATED.

- 3) DEVELOP A STATE AQUACULTURE POLICY
WITH RECOMMENDATIONS TO THE LEGISLATURE
ON ISSUES FACING AQUACULTURE, INCLUDING:
- a) THE STATUTORY DEFINITION OF AQUACULTURE;
 - b) CUMBERSOME PERMITTING REQUIREMENTS;
 - c) LAND USE CONFLICTS;
 - d) MARKETING STRATEGIES FOR AQUACULTURE;
 - e) STATE LEASING OF TIDAL WATERS FOR
MARICULTURE.

Clam and Oyster Seasons

The Wildlife and Marine Resources Commission has limited authority in setting the dates of seasons for harvesting clams, oysters and other mollusks. Further, the Commission cannot set season dates for individual areas, but only for the State as a whole. These restrictions prevent the Commission from closing certain areas of the State for conservation reasons, or from opening areas where the water quality is safe and the supply is adequate for harvesting year around.

Section 50-17-1240 of the South Carolina Code of Laws prohibits the harvesting of oysters between May 1 and September 15 and the harvesting of clams between June 1 and September 1. The Wildlife and Marine Resources Commission may open the season 15 days earlier or extend the season 15 days later, or both, on a statewide basis.

A Commission official stated that the law requiring closed seasons is old and was probably enacted to prevent overharvesting and because most water quality problems occur during the summer. However, better

information and monitoring now mean the need for restricting the seasons statewide is unnecessary.

To determine if water quality problems exist, the Division of Shellfish and Recreational Waters of the Department of Health and Environmental Control (DHEC) surveys all oyster and clam growing areas of the State. If a high level of contamination is present in an area, the Division declares the area grossly polluted, and the harvesting of clams and oysters is not permitted.

The Wildlife and Marine Resources Commission does not have similar authority to close certain areas of the State for conservation reasons. The conditions for growth may not be the same statewide, and some beds may need longer to develop than others. The Commission is surveying all clam and oyster beds in the State to determine their location and supply. When the information is computerized in June 1985, the Commission will continue closely monitoring the supply of clams and oysters.

Commission officials state that there could be some areas of the State where the water quality is safe and the supply is adequate for harvesting year around. Not having authority to open and close individual areas of the State results in the loss of income for those who make their living harvesting clams and oysters and the ultimate loss of income through taxes to the State.

RECOMMENDATIONS

THE GENERAL ASSEMBLY SHOULD CONSIDER
AMENDING SECTION 50-17-1240 OF THE SOUTH
CAROLINA CODE TO GIVE THE SOUTH CAROLINA

WILDLIFE AND MARINE RESOURCES COMMISSION,
UPON THE APPROVAL OF THE DEPARTMENT OF
HEALTH AND ENVIRONMENTAL CONTROL, THE
AUTHORITY TO OPEN OR CLOSE ANY AREA OF
STATE WATERS FOR THE HARVESTING OF OYSTERS,
CLAMS AND OTHER MOLLUSKS AT ANY TIME OF
THE YEAR, WHEN CONDITIONS WARRANT.

THE GENERAL ASSEMBLY SHOULD REQUIRE THE
WILDLIFE AND MARINE RESOURCES COMMISSION
TO MONITOR THE SUPPLY OF CLAMS, OYSTERS,
AND OTHER MOLLUSKS IN STATE BEDS.

Promotion of Tourism

Introduction

Despite adverse economic times, tourism in South Carolina continued its favorable impact on the economy in the early 1980's. The tourism industry generated increased income, jobs and tax revenue during a period of economic recession. During 1982, travelers in the State spent nearly \$2.5 billion, an increase of 5.3% over 1981. Between 1980 and 1982, the State's growth rate of 17.8% in tourism-generated expenditures was greater than the 10.9% national average.

One of the most important benefits of tourism is the employment required to support this activity. Travel creates jobs within a community by attracting and injecting money from outside the community. During 1982, travel and tourism directly supported approximately 68,000 jobs throughout the State, which was 5.8% of total employment.

Tourism also benefits State and local governments by generating tax revenues. In 1982, \$113.5 million, or nearly 6% of all State tax revenues, were travel-related. Local governments received over \$12 million in tax revenues in 1982.

The Audit Council examined the activities of the Department of Parks, Recreation and Tourism (PRT) to promote the tourist industry in the State. The Tourism Division's activities are organized into the Advertising and Development Section, the Welcome Centers and the National News and Information Section.

Advertising and Development Section

The Advertising and Development Section of the Tourism Division promotes the State as a vacation and convention destination. Its responsibilities include the tourism advertising campaign, the Inquiry Center, the European tourism marketing program, attendance at national and international trade shows and assistance to the tourism industry.

During FY 82-83, the PRT advertising campaign included television, magazine and newspaper advertising in key regional markets in the United States and Canada. In FY 82-83, the Section's Inquiry Center processed over 200,000 requests for travel information generated by the various advertisements.

The Advertising and Development Section is also responsible for the European tourism marketing program. In October 1980, the PRT Commission hired a West German consultant to promote South Carolina as a place to visit. Also, for the European tourism marketing program, the Tourism Division participated in six international travel shows in FY 82-83. Besides distributing information on the State's attractions to

tour companies and travel agents, PRT compiles contact lists of their names and addresses to sell to the State's hotels, motels and resorts, as they do for contacts made in the United States. During 1982, more than 26,000 Europeans visited South Carolina, spending \$5.4 million.

The Tourism Division administers the Funds-Sharing Program, a grant program, to assist local communities in promoting festivals and tourism-related activities. Local governmental units and nonprofit organizations may receive funding on a 50-50 basis for media advertising and printed information. Revenues from the admissions tax in excess of \$3.5 million go to fund the program. In FY 83-84, almost \$1.2 million was available to fund 208 projects.

Welcome Centers

The Tourism Division operates ten Welcome Centers on Interstates and major State highways. In FY 82-83, the Centers distributed over five million brochures to more than four million visitors. More than 90% of the people who visit Welcome Centers are from out-of-state, and the Welcome Centers have been used to survey these visitors on their origins, destinations and vacation preferences. PRT has compiled this information and shared it with members of the tourism industry.

The Welcome Centers also provide a complimentary lodging reservation service, which made over 30,000 reservations with the State's hotels for more than 75,000 travelers in FY 82-83. PRT officials estimate the reservation service generated approximately \$3 million in that year.

National News and Information Section

To inform both tourists and professionals in the tourism industry of what South Carolina offers, PRT's National News and Information Section writes and updates a variety of brochures on the State's tourism attractions. In an effort to steer tourists to the State, PRT distributes these brochures directly to tourists, as well as during various trade shows and seminars for the tourism industry.

The National News and Information Section also writes and distributes articles on the State's tourist attractions. The Section's mailing list for the articles is composed of news organizations, travel writers and travel trade publications. For 1982, PRT estimates that magazine and newspaper feature stories about South Carolina vacation attractions brought nearly \$2.9 million in free publicity for the State.

PRT periodically hires a consultant to do an advertising-effectiveness study. The consultant sends questionnaires to a sample of respondents to PRT's magazine and television ads. The questionnaire results indicate which advertisements are most effective in attracting tourists to the State. Because of these studies, advertising budgets and schedules can be done more cost-effectively.

The efforts by PRT to assist the tourism industry are adequate and are comparable to other states. Because of the jobs and revenues generated from tourism, PRT should continue to support tourism promotion to assist the growth of the industry.

Assisting Small Businesses

Small businesses are important to the economy as sources of jobs, profitability and technological innovations. Small firms with 20 or fewer

employees create 66% of all new jobs. Manufacturing firms with less than \$5 million in sales and assets have shown greater returns on investment than all other size firms in the last decade. Further, half of the major innovations in recent years have been produced by individuals or small businesses.

Small Business Development Centers

The Small Business Administration has found that 92% of all business failures are a direct result of poor management. To reduce the business failures in the State, a network of Small Business Development Centers (SBDC) was established to provide management and technical assistance to new and small businesses. A consortium of four state-supported colleges and universities, Clemson University, the University of South Carolina, South Carolina State College and Winthrop College, joined to form the SBDC in 1978. Four basic service centers and eight satellite centers provide counseling, training and assistance in such areas as loan packaging, marketing, bookkeeping and inventory management. Currently, the SBDCs are receiving more requests for assistance than they can meet. Appointments have been scheduled ahead as far as four weeks and SBDC staff have stated that they cannot handle any more clients with their current staff. Businesses served through training and counseling in 1983 totaled 3,609.

The SBDC program is funded by a 50/50 federal matching grant. According to SBDC officials, under the federal formula for funding SBDC's, the State was eligible to receive approximately \$900,000 in federal funds in 1983. However, since the State's match totaled \$400,000, only \$400,000 was received in federal funds. The State's 50% match

consisted of a \$150,000 State appropriation and a cash and in-kind contribution from the consortium schools. At least half of the match must be cash.

A study of the impact of services conducted for the State's SBDC's between 1980 and 1982 indicates the benefits received from their services. Of the businesses that were started after counseling from the SBDC, 86% were still in business after two years, while the national average was 54%. SBDC-counseled businesses produced \$22.4 million more in sales, created 97.4 more jobs and received \$1.4 million more in profit than they would have, had they performed as the average South Carolina business during that time. Further, the study found that for every dollar in State funds expended by the SBDCs, \$14.60 was returned to the State in tax revenues. New and existing businesses that were counseled generated almost \$1.5 million in new State tax revenues from 1980 to 1982.

The General Assembly has increased the appropriation for the Small Business Development Centers to \$250,000 for FY 84-85 and provided an additional \$100,000 in a supplemental appropriation. The SBDCs should continue to encourage consortium schools to increase cash contributions to fund the program.

State Procurement with Small and Minority Businesses

Many states have recognized the importance of involving small and minority businesses in the procurement process of the State. Programs have been developed to ensure that a fair proportion of State purchases and contracts are awarded to small, as well as minority, businesses. Procurement assistance programs are of two types, those assisting small

firms in participating in the procurement process, and those encouraging State agencies to procure from small businesses.

South Carolina provides a mechanism for assisting small and minority businesses in seeking State contracts or conducting business with the State through the Governor's Office of Small and Minority Business Assistance (OSMBA). The OSMBA certifies minority businesses, as required by the South Carolina Consolidated Procurement Code, and provides technical assistance and procurement training to small and minority firms seeking contracts or business with the State. Some assistance is also provided in packaging loans and reviewing management systems for these businesses.

The Office of Small and Minority Business Assistance also works with State agencies to encourage them to procure from minority businesses, assisting in the development and approval of Minority Business Enterprise Utilization Plans and ensuring that minorities are solicited when the State requests proposals for products and services. In addition, the Office assists in the development of policies and procedures that would increase the participation of small and minority businesses in the State procurement process. State purchases from minority businesses increased from \$6.8 million in FY 82-83 to \$23 million in FY 83-84, according to the OSMBA.

RECOMMENDATIONS

THE SMALL BUSINESS DEVELOPMENT CONSORTIUM
SHOULD CONTINUE INCREASING CASH CONTRIBUTIONS
TO FUND THE SMALL BUSINESS DEVELOPMENT
CENTERS (SBDC). THE GENERAL ASSEMBLY

SHOULD CONSIDER PROVIDING THE NECESSARY FUNDS TO ENABLE THE SBDC TO LEVERAGE THE MAXIMUM AMOUNT OF FEDERAL FUNDS WITH STATE FUNDS, IN ORDER TO EXPAND ASSISTANCE TO THE STATE'S SMALL BUSINESSES.

THE OFFICE OF SMALL AND MINORITY BUSINESS ASSISTANCE SHOULD CONTINUE TO ENCOURAGE STATE AGENCIES TO PURCHASE FROM SMALL AND MINORITY FIRMS.

Encouragement for Exporting

Exporting goods and services is a vital activity to the economic well-being of the State. In 1981, the value of manufacturer's shipments which were exported from South Carolina was \$4.2 billion. Further, 76,400 jobs in South Carolina, or 6.5% of private sector employment, were related to manufactured exports the same year. The United States Department of Commerce estimates that for every \$1 million in exports, 23 directly-related and 12 indirectly-related jobs are generated.

While the State has taken steps to encourage the exporting of its products, additional steps are needed to further promote exporting, and thereby, stimulate job creation. These are discussed below.

New Services in State Assistance Programs

The State Development Board and the Department of Agriculture similarly promote the export of South Carolina products. The Development

Board, through its International Division, distributes trade leads to manufacturing companies and has begun research to determine the market potential of manufactured products abroad. The Board also organizes trade missions for South Carolina company representatives interested in developing trade opportunities overseas. The Department of Agriculture's Marketing Division communicates trade leads to agribusinesses in the State, participates in trade shows and trade missions with farmers and agribusiness representatives, and conducts market research to target export of specific products to defined areas of the world.

The Development Board's assistance has been directed toward manufacturers who are ready to export their products overseas, primarily through trade missions and trade leads.. However, the District Office of the International Trade Administration, a branch of the United States Department of Commerce, estimates there are 1,000 potential manufacturing exporters in the State that do not currently export their products. The reasons these manufacturers do not export include apprehension about exporting and lack of knowledge about international markets.

The Department of Agriculture encourages exporting by working with small- to medium-size farmers in workshops and seminars to make them aware of the potentials of exporting through the formation of farmers' cooperatives. The National Association of State Development Agencies states that calling on companies by appointment is a most effective way of providing one-on-one export counseling and permits the trade specialist to evaluate the degree of company interest in exporting.

The Development Board has considered visiting companies that are export-capable, but has not done so because of the lack of staff in the

International Division. Currently, the Division has two professionals to conduct all foreign trade development and promotion activities.

The Development Board has begun expanding its assistance to small and existing businesses since most of the economic growth in the State is in existing business (see p. 20). Encouraging and assisting businesses in exporting their products would complement these efforts. The Development Board should, therefore, consider shifting one of its industrial agents to the International Division to visit and encourage existing businesses to export their products or to increase exports.

To further complement efforts to assist small and existing businesses in the State, the Development Board and the Department of Agriculture should consider conducting catalogue shows for foreign buyers. These shows are overseas exhibits of sales catalogues displayed by State agency personnel for companies interested in exporting. For this assistance, the company pays a small fee to the agency to offset the costs of the show. Catalogue shows provide export assistance to companies, particularly small companies, seeking limited market exposure or having limited resources to test market interest in their products. By conducting catalogue shows, the Development Board and the Department of Agriculture can expand assistance to potential exporters at no additional cost to the State and thereby, increase the possibilities of job creation through the export of South Carolina products.

Assistance in Financing Exports

Financing is one of the most difficult challenges faced by exporting companies or those that wish to export. United States banks finance less than 10% of United States exports. Smaller companies are generally

more dependent on bank financing than larger companies, but are a less attractive investment.

To overcome some of the financing problems faced by exporters, the Jobs-Economic Development Authority (JEDA) is authorized to use its program funds to provide low interest loans, guarantees and insurance for the benefit of eligible exporters. Priority consideration is to be given to the needs of small- and medium-size businesses. However, JEDA has not yet implemented programs of financial assistance to exporters. Further, when programs are implemented, exporters of raw materials grown or obtained from South Carolina may not be eligible for assistance.

The Jobs-Economic Development Authority's legislation states:

...Upon securing sufficient funds, the Authority is directed to develop programs to encourage the export of goods, services, commodities, machinery, equipment, or other personal property to which value is added within the State... [Section 41-43-190(A) of the South Carolina Code of Laws]

There is confusion about the eligibility of some to receive export financial assistance, because value is added to a product at each stage of the processing of a raw material. Therefore, this could exclude assistance to exporters of raw materials, such as agricultural and forest products, which have not been processed prior to exporting.

JEDA has not developed any specific programs for export assistance because the Authority lacks the resources to expand its current program (see p. 115). JEDA also lacks the staff with expertise in export financing to implement a financial assistance program for exporters. JEDA officials anticipate hiring staff and implementing a program for export assistance when it begins issuing revenue bonds. This will not be done until the authority of JEDA to issue bonds is decided by a court test case.

Tax Incentive for Exporting

United States Department of Commerce figures show that in 1981, only 800 (19%) of South Carolina's 4,200 manufacturing firms were exporters. There are another 1,000 companies that the Department estimated could be and should be exporters. To encourage companies to begin exporting or to increase exports, the South Carolina District Export Council, an advisory council to the Commerce Department's District Office, proposed in 1983 that the State authorize a corporate income tax incentive for increased export sales.

The District Export Council examined the effect of the incentive on companies' taxes and on State revenues. The results indicate that the State would gain in revenues over a four-year period as the result of a reduction in unemployment and an increase in personal income taxes attributable to new export-related jobs.

The tax incentive would exclude from State corporate income taxes, the increase in gross income from current-year export sales over the average export sales for the previous three years. The 100% tax credit would be reduced to 50% when the three-year average of export sales exceeded \$1 million. The method of calculation would provide beginning exporters a proportionately larger tax break than it would provide an established exporter.

The Export Council's conclusions were reviewed by representatives of the State Tax Commission to determine if the assessment methods were appropriate. A Commission representative stated "the basis for formulating the net effects on State revenue appears to be solid....we feel we can administer such a proposal if implemented."

The strong United States dollar has made it difficult for companies to do business overseas because American goods are more expensive, and therefore, less competitive. This makes the expansion of State programs of assistance to exporters more crucial to encourage those who can export to do so. When American goods become more competitive overseas, established programs of export assistance can give South Carolina companies an edge over companies competing from other states. The result will be increased jobs and revenues to the State.

RECOMMENDATIONS

THE STATE DEVELOPMENT BOARD SHOULD SHIFT ONE OF ITS INDUSTRIAL AGENTS TO THE INTERNATIONAL DIVISION TO IDENTIFY, VISIT AND ENCOURAGE SOUTH CAROLINA BUSINESSES TO EXPORT THEIR PRODUCTS.

THE STATE DEVELOPMENT BOARD AND THE DEPARTMENT OF AGRICULTURE SHOULD BEGIN CONDUCTING CATALOGUE SHOWS TO PROVIDE INCREASED EXPORT ASSISTANCE TO SOUTH CAROLINA COMPANIES.

THE JOBS-ECONOMIC DEVELOPMENT AUTHORITY SHOULD AMEND ITS REGULATIONS TO CLARIFY THE ELIGIBILITY CRITERIA FOR EXPORT FINANCE ASSISTANCE, TO ALLOW EXPORTERS OF ALL PRODUCTS GROWN OR PROCESSED WITHIN THE

STATE TO BE ELIGIBLE FOR ASSISTANCE FROM THE AUTHORITY.

WHEN SUFFICIENT FUNDING IS AVAILABLE, THE JOBS-ECONOMIC DEVELOPMENT AUTHORITY SHOULD BEGIN A PROGRAM OF FINANCIAL ASSISTANCE FOR EXPORTERS AND HIRE STAFF WITH EXPERTISE IN EXPORT FINANCING TO ADMINISTER THE PROGRAM.

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING ARTICLE 3 OF CHAPTER 7 OF TITLE 12 OF THE SOUTH CAROLINA CODE OF LAWS BY ADDING A NEW SECTION TO PROVIDE A TAX INCENTIVE FOR SOUTH CAROLINA BUSINESSES FOR INCREASED EXPORT SALES. SUCH PROVISION SHOULD EXCLUDE FROM THE CALCULATION OF CORPORATE INCOME TAXES THE INCREASE IN GROSS INCOME FROM EXPORT SALES.

Financing Business Development

Existing sources of capital have not been adequate for financing entrepreneurial development in the State. Small businesses usually need relatively small (less than \$2 million), long-term loans, while commercial banks usually want loans repaid in three to five years. Industrial revenue bonds, used to finance large companies, are expensive

for financing the amounts needed by many small businesses because of the fixed costs involved. Further, venture capital firms prefer to finance business expansion rather than business development.

To meet some of the capital needs of small and medium size businesses, the General Assembly created the Jobs-Economic Development Authority (JEDA) in 1983. JEDA is authorized to establish loan programs to reduce the cost of capital to South Carolina businesses. However, several problems hinder JEDA's ability to provide needed financial assistance.

JEDA is authorized to provide loans to manufacturing, industrial and service businesses in the State which demonstrate that financial assistance will result in the creation or maintenance of permanent jobs. The loans can be used for the construction or purchase of land, buildings, machinery and equipment and under specified conditions, to finance working capital. Loans are made for up to 15 years with interest rates at 85% of the average prime rate, as established by major South Carolina banks.

JEDA is also authorized to provide loans for the research, testing, development and marketing of new products, equipment and processes. If JEDA is able to exercise its full authority, it can provide a variety of financing options for eligible South Carolina businesses. However, since JEDA was only recently created, it is not known how much of its authority will be exercised.

Until JEDA can issue industrial revenue bonds, the only source of funds for loans is the federal Community Development Block Grant (CDBG). Businesses located throughout the State are eligible to apply for CDBG loans, except those located in areas prohibited by Title I of

the Housing and Community Development Act of 1974, as amended. This makes businesses in seven cities and all municipalities within one county in the State ineligible for JEDA loans. Because of the limited source of funds for making loans, JEDA has restricted its financial participation to 50% of a project's total cost, not to exceed \$500,000. However, this cap is not legislatively mandated, thus it can be increased or decreased by JEDA's board of directors.

A case testing the constitutionality of the statute creating JEDA and giving it the authority to issue bonds will soon be before the State Supreme Court. The Act has already been held constitutional by a State Circuit Court. If the case is concluded in JEDA's favor, the Authority can expand its programs by issuing industrial revenue bonds to provide loans to businesses in the State. Bonds can be used to provide funds for any program JEDA is authorized to undertake. These include programs providing direct loans, loans to lending institutions and loan guarantees. Further, JEDA can issue composite bonds, combining into a single offering bonds to finance more than one project, thereby reducing the cost of financing to businesses.

To expand its programs, JEDA is currently seeking private sources of funding and has created two corporations to help carry out its purposes. The Jobs-Economic Corporation, a mirror corporation of JEDA, and JOBEC, a wholly-owned subsidiary of the Jobs Economic Corporation, will be used to develop alternative sources of capital to expand JEDA assistance. However, no action has taken place with either corporation thus far.

Many businesses do not have sufficient collateral to obtain long-term loans, so they obtain venture capital by exchanging a portion of the

business's equity, usually in the form of stock, for the investment. Article X, Section 6 of the State Constitution prohibits the State from becoming a joint owner of or stockholder in any company, association or corporation. JOBEC, however, is not so restricted and can provide equity capital when it has an adequate asset base. JEDA officials, however, state that it is too early to determine the types of financing JOBEC will provide.

A more common route for a state government to take than equity financing is loan guarantees. These encourage private lenders to provide the capital by guaranteeing that losses will be covered by the state. In South Carolina, State funds cannot be used to guarantee loans made by financial institutions to businesses, but according to a JEDA official, other resources available to JEDA, such as industrial revenue bonds, can be utilized in making loan guarantees. However, since JEDA was only recently created, it is not known how much of its authority will be exercised or what types of financial assistance will be provided. A JEDA official stated it could be five to six years before the Authority has a portfolio large enough to make loan guarantees. In the meantime, the need for venture capital could continue to pose a barrier to business development in the State. Until adequate capital resources are available to meet the needs of the State's businesses, the emergence and expansion of businesses which create new jobs, and thereby economic growth, will be hindered.

APPENDICES

APPENDIX A
STATE AGENCIES AND EDUCATIONAL INSTITUTIONS
PROVIDING ASSISTANCE FOR THIS REPORT

Department of Agriculture

Arts Commission

Attorney General's Office

Clemson University

Coastal Council

Department of Education

State Development Board

Employment Security Commission

Family Farm Development Authority

Forestry Commission

General Services Division of the Budget and Control Board

Governor's Office

Community and Economic Affairs Division

Employment and Training Division

Office of Small and Minority Business Assistance

Rural Improvement Division

Transportation Division

Department of Health and Environmental Control

Department of Highways and Public Transportation

Jobs-Economic Development Authority

Land Resources Conservation Commission

Local Government Affairs Division of the Budget and Control Board

Department of Parks, Recreation and Tourism

APPENDIX A (CONTINUED)

State Ports Authority

Public Service Authority (Santee-Cooper)

Division of Research and Statistical Services of the Budget and Control Board

Research Authority

Sea Grant Consortium

Secretary of State's Office

Small Business Development Centers

Department of Social Services

State Board for Technical and Comprehensive Education

Tax Commission

University of South Carolina

Advisory Council on Vocational and Technical Education

Water Resources Commission

Wildlife and Marine Resources Department

APPENDIX B

FOOTNOTES TO BACKGROUND-

DEVELOPMENT OF THE STATE'S ECONOMY

1 Matthews, Nancy T. and Richard B. McKenzie, "New Plants and Employment Gains in South Carolina During the 1970's," Business and Economic Review, October 1982, p. 34.

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3 South Carolina Division of Research and Statistical Services, 1982 South Carolina Statistical Abstract, 1982, p. 86.

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APPENDIX B (CONTINUED)

- 17 Matthews, Nancy T. and Richard B. McKenzie, op. cit, p. 34.
- 18 South Carolina Development Board, "New and Expanded Plants in South Carolina," January 1983.
- 19 United States Department of Commerce, Bureau of Economic Analysis, April 1984, Per Capita Personal Income Growth from the South Carolina Division of Research and Statistical Services.
- 20 South Carolina Division of Research and Statistical Services, op. cit., p. 4.
- 21 Hekman, John and Alan Smith, "Behind the Sunbelt's Growth: Industrial Decentralization," Economic Review, Federal Reserve Bank of Atlanta, March 1982, p. 7.
- 22 South Carolina State Development Board, South Carolina 1984 Industrial Directory, 1984, pp. 243-245.
- 23 United States Bureau of the Census, 1980 Census of Population and Housing, Supplementary Reports.
- 24 Figures from the staff of the South Carolina Literacy Association.



STATE DEVELOPMENT BOARD

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JOSEPH D. SAPP
CHAIRMAN

March 27, 1985

TEL. 803/758-3145
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Mr. George L. Schroeder, Director
Legislative Audit Council
620 Bankers Trust Tower
Columbia, SC 29201

Dear Mr. Schroeder:

You and your staff are to be commended for a remarkably thorough job, especially considering how far afield a review of this sort is from your normal audit functions. The thrust of your Report--that the State can benefit from a better planned and coordinated economic development effort--is right on target.

While we agree with most of the Report's recommendations, (there are some with which we strongly disagree, as you know), we find considerable difficulty with some of the rationale used in support of the recommendations.

We will attempt to address the recommendations in the order in which they appear in your Report.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD CONSIDER AMENDING SECTION 13-3-10 ET SEQ., KNOWN AS "THE RESEARCH, PLANNING AND DEVELOPMENT ACT," TO PERMANENTLY ESTABLISH THE COORDINATING COUNCIL ON ECONOMIC DEVELOPMENT. THE COUNCIL SHOULD HAVE THE AUTHORITY TO FORMULATE A STATE DEVELOPMENT PLAN AND TO IMPLEMENT IT THROUGH ALL APPROPRIATE AGENCIES OF THE STATE.

With this we fully concur. In the past, South Carolina had no entity with authority to coordinate and plan the State's overall economic development. Significant progress has been made since the Audit Council concluded its fieldwork almost a year ago. The permanent establishment of the Coordinating Council with authority and with a planning capability is the next logical step.

Interestingly, two recent studies--one by The Corporation For Enterprise Development and one by the Governor's Job Training Coordination Committee--make recommendations similar to that of the Audit Council.

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RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD CONDUCT ADEQUATE RESEARCH WITH INPUT FROM THE UNIVERSITIES, PRIVATE BUSINESSES, AND OTHER DEVELOPMENT-RELATED AGENCIES, TO TARGET SPECIFIC INDUSTRY TYPES WHICH ARE GROWING AND ARE MOST ATTRACTIVE AND SUITABLE FOR THE STATE.

THE ECONOMIC DEVELOPMENT DIVISION DIRECTOR SHOULD ENSURE THAT THE INDUSTRIAL AGENTS IMPLEMENT THEIR TARGETED INDUSTRY STRATEGIES APPROPRIATELY.

We concur with these two recommendations and believe that considerable progress has been made. However, we would make two points concerning the rationale to support your recommendations. (1) The context, in which the target industries' program fits within the overall industrial recruitment program, is overemphasized. (2) The Report supports an academic approach heavily weighted with the use of computers, SIC codes, etc., to identify "best opportunities" for industrial growth by specifying narrowly defined industry categories. This form of targeting, while not without merit, represents but one approach favored in some academic circles. Considering the source of the expert advice, its adoption by the Audit Council was probably inevitable. However, it is lamentably one-sided.

Among the majority of industrial development practitioners there is another, and at least equally valid, approach which the Audit Report seems to discount. We were sufficiently concerned with this bias to consult the president of Development Counselors International, Ltd., one of the nation's oldest and most experienced economic development consulting firms. This firm is currently preparing a marketing and development strategy for one of the State's electric utilities. His view is as follows:

"On the matter of 'targeting,' we have worked with over three dozen clients involved in trying to isolate specific types of business operations where they have a relatively competitive advantage. We have come to the conclusion over and over again that there is a real danger in being too specific in targeting industry, especially via blind use of the computer and SIC numbers as opposed to a more common sense approach in which broad families of industries are appealed to. You should, therefore, use a pretty wide net in our judgement, and the companies you catch in it will be in a position to pinpoint more specifically those products and/or services that make greatest sense for them within your State."

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This is essentially the approach which produced the State Development Board's list of target industries. We continue to rely principally upon this approach while expanding our work with the academic community.

As to Food Processing being singled out as an inappropriate target, we can, if given the opportunity, demonstrate to the contrary. It is no more inappropriate than Aerospace which it replaces in the first draft of the Audit Report as inappropriate. Campbell Soup, Stouffer, Louis Rich, etc., have demonstrated the double benefit we derive from this particular industry, not just industrial jobs but a tremendous impact on our agricultural economy which, as a State agency, we are pledged to support. If these are not sufficient reasons to target Food Processing, there is another overriding one. A member of the Board--the Commissioner of Agriculture--would go up in smoke if we didn't.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD NEEDS TO DETERMINE IF ITS STAFF AND FINANCIAL RESOURCES ARE ALLOCATED TO AREAS WITH THE MOST POTENTIAL FOR CREATING NEW JOBS.

We concur and believe that we are meeting this need. However, it should be kept in mind that industrial recruitment has traditionally been our core role and that to rob it in order to expand our other efforts would be shortsighted. Fortunately, this has not been necessary. We are in agreement that the State should emphasize, more than it has in the past, the ability of existing business and industry and the entrepreneurial spirit to generate new jobs.

Our expanded program to support internal development has come into being primarily during and since the Audit Report. We are expanding this program in a responsible manner and it is receiving all of the resources required.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD PROVIDE MORE DETAILED MARKET RESEARCH NEEDED BY PROSPECTS, EXISTING INDUSTRIES, AND OTHER USERS TO FACILITATE LOCATION AND OTHER DECISIONS. THE DEVELOPMENT BOARD SHOULD ENSURE THE NECESSARY STAFF AND COMPUTER CAPABILITIES ARE AVAILABLE THROUGH THE PLANNING AND RESEARCH DIVISION TO FACILITATE COMPETENT AND BENEFICIAL MARKET RESEARCH FOR PROSPECTS AND OTHER USERS.

We agree that we should expand our research to support both business recruitment and existing business and industry. However, we must take issue with the implication that we have not provided

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adequate market research to support prospects and other users to facilitate location decisions. Information of this nature is prepared on a case-by-case basis as the requirements of prospects dictate. Each represents a unique set of circumstances and has special requirements.

The in-depth research required to assess the potential market for a product in sufficient detail to influence a location decision is resource intensive. The benefits of such efforts are questionable in terms of their return to the State. Generally speaking, established firms know more about market potential than a report prepared by a state development program can reveal. There is also the question of credibility when such reports are prepared "for free" and are a part of the State's promotional strategy.

On the question of computerization, the Agency had a commitment to automation prior to the audit period. A study of the Agency's needs reflected an implementation cost of approximately \$550,000 with about \$150,000 in annual maintenance cost. We found this excessive. During and since the audit period, significant progress has been made to automate records and data. With the guidance of the University's Institute of Information Management, Technology and Policy, we believe that we will obtain the necessary computer capability for about \$120,000 spread over two years. This we can manage within our existing budget.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD CONSIDER SHIFTING STAFF TO COLLECT THE DATA FOR BASIC AND TO ENSURE THAT THE DATA COLLECTED IS KEPT COMPLETE AND UP-TO-DATE TO MEET THE NEEDS OF THE STATE'S INDUSTRY AND THOSE OF THE DEVELOPMENT BOARD.

THE STATE DEVELOPMENT BOARD SHOULD CONSIDER CONTRACTING OUTSIDE THE AGENCY FOR DATA COLLECTION FOR THE AUTOMATED BASIC PROGRAM AND TO KEEP THE INFORMATION CURRENT.

We concur fully in the need to keep complete and up-to-date information for business assistance and believe that we are proceeding in an appropriate manner to reach these goals. Since the Audit Council completed its fieldwork in April of 1984, five additional staff have been added to the BASIC Division as either full-time employees or consultants. One consultant has been retained on a full-time basis to collect and keep up-to-date information for the buyer/supplier match system.

The specific nature of information required to make the buyer/supplier system work requires not only a comprehensive data base but also a knowledge and understanding of other aspects of the buyer/suppliers' business interests which cannot be computerized.

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We do not believe that outside contracting or elaborate and expensive computer services are the answer.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD DEVELOP EFFECTIVENESS MEASURES OF ITS DEVELOPMENT ACTIVITIES, WHICH CAN BE USED TO ALLOCATE RESOURCES AND PROVIDE ANALYSIS OF THE STATE'S ATTRACTIVENESS TO INDUSTRY.

The techniques which the Audit Report suggested for evaluating various aspects of the State Development Board's activities have merit. We feel that we utilize such measures and are always anxious to improve them. However, the Report fails to recognize the complex nature and the time frame involved in business and industry recruitment. As with most business development programs, the State Development Board's advertising and other promotional techniques are structured primarily to build an awareness among business and industry of South Carolina and its resources. This, in our opinion, is a long-range process which involves many activities including paid advertising, public relations, trade shows and other meetings of business and industry.

Unlike other marketing programs, states do not have the ability to create or generate demand. Firms through their own evaluation process have a need to expand or they do not. The State cannot, for example, run a sale on labor or construction costs to stimulate buying. Additionally, the location decision process is more often than not drawn out, extending over months or even years.

Tracking the origin of the first interest of a prospect, be it trade show, team trip or media advertising, would not be an accurate measure of the effectiveness of the effort. To assert that we do not analyze the effectiveness of advertising ignores the facts available to the Audit Council staff. We do not use the measures you suggest. Those we use are, in our opinion, more appropriate in measuring the basic purpose of our advertising program--which is State identity first and leads second.

The economic development consultant, quoted previously, had this to say about South Carolina's advertising program:

"We believe South Carolina has mounted an extraordinarily effective basic advertising program which appeals to the self-interest of businessmen as an arresting symbol and has been run long enough (unlike other states) so the message is getting across effectively in a number of ways to people that count. As I mentioned to you, we often use this

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campaign as an example of successful development 'image' advertising in discussing and describing economic development practices around the world."

Many factors outside of the Development Board's programs have great influence on capital investment and new plants locating in the State. We do not locate plants, we simply assist them with their decisions. However, we disagree with your finding that this is not a measure of the effectiveness of the Agency's program.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD DISCONTINUE CONTRACTING FOR PUBLIC RELATIONS SERVICES. ALL PUBLIC RELATIONS WORK SHOULD CONTINUE TO BE DONE BY THE BOARD'S STAFF.

We are confident the Audit Council staff has made this recommendation in good faith. However, we find little justification in their conclusion or rationale.

To suggest that our staff of two can conduct such a program is ludicrous. To compare our program with that of Parks, Recreation and Tourism demonstrates a lack of understanding of the nature of the two programs. Tourist promotion involves publications anxious to receive any interesting articles to fill their pages, travel writers available for free trips, etc. Parks, Recreation and Tourism's program effectively captures that.

Public relations in the world of business is a bit different. You do not write stories for major national publications. You can only establish relations with business writers, furnish information and keep the State's activities in front of them.

Most of the national press which we seek to influence has a presence in Washington. The media we seek to reach can only be influenced by activity that has a presence and daily contact with representatives of these publications as opposed to attempting to establish a long distance relationship from Columbia. Our contract for public relations has one other advantage--it's a damn site cheaper than the approach recommended by the Audit Report (a permanent in-house staff of five).

In the earlier years of the State Development Board (60's and early 70's), our national advertising campaign was New York based. We contracted for public relations and advertising services with the New York based agency. The present public relations contract is a simple reinstallment of an old but successful policy. I do not know the source of the assertion that the purpose of the public

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relations effort was to supplement a declining advertising budget. I thought that we had demonstrated that this was not correct. Of course, it is a valuable adjunct to any advertising effort and we have merely reinstated a long-standing and valuable practice.

RECOMMENDATION

ON ITS ANNUAL SURVEY OF INDUSTRIES, THE STATE DEVELOPMENT BOARD SHOULD REDEFINE PLANT EXPANSION AS CAPITAL EXPENDITURES AND/OR NEW JOBS WHICH RESULT IN INCREASED PRODUCTION CAPACITY.

It should first be noted that there has been no suggestion that our figures as to dollars and jobs are in any way inflated or inaccurate.

As the Audit Report has defined "expand plant" we would agree that information collected and published by the State Development Board does not meet the criteria for its definition.

The terms "new" and "expanded" manufacturing plants have traditionally been used. The term "expanded plants" is used by virtually all other states, that track investment in the same manner. This is intended to show industries' contribution to the tax base and is unrelated to jobs or production capacity. The term "expanded plant" is used as a short-term of convenience to describe, in a table, titled growth (expansion) in investment. There is not a relationship between jobs and investments although one may be implied because they are reported on the same table. There are numerous examples of "expanded" investment which do not result in new jobs. Nevertheless, in order to eliminate any possibility of misleading somebody and to comply with the Audit recommendation we will change the word "expanded" to "existing" in future reports--in my judgment, an exercise in picking nits.

RECOMMENDATION

THE DEVELOPMENT BOARD SHOULD CONSIDER AUTOMATING THE SITES AND AVAILABLE BUILDINGS INVENTORIES.

THE DEVELOPMENT BOARD SHOULD IMPLEMENT A FOLLOW-UP SYSTEM TO ENSURE ACCURATE AND CURRENT INFORMATION FOR THE SITES AND AVAILABLE BUILDINGS INVENTORIES.

We are in concurrence with some elements of this recommendation. At the time the field audit was being performed we were in the process of installing in-house computer capabilities. Since the audit has been completed, the inventory of available buildings has been computerized.

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In 1971 the State Development Board computerized its industrial site inventory at considerable expense. After unsuccessful attempts to use the system over a period of four years, it was determined that the objective approach to recommending industrial sites represented by a computer would not work in the practical world. Incidentally, South Carolina's system, at that time, was modeled after several other states, most of which have since abandoned the idea. The Agency presently keeps its site information in an electronic word processing unit which has the ability to provide basic information for inventory control. Consideration will be given to converting this system to operate on the newly acquired, in-house computer system.

As to a methodical follow-up system for keeping the inventory up-to-date, we believe that activity with sites and buildings dictates that information be reviewed constantly. With less desirable property, where activity is not sufficient, periodic reviews of the files by State Development Board staff and local development officials are conducted. Sites or buildings which have not shown activity in recent months are automatically updated before information is given to potential investors. It is our opinion that this is a more efficient manner for maintaining current usable information on sites and buildings. In particular, we are of the opinion that maintaining a constant review of the listings of industrial sites, 50 percent of which are maintained in the files at the request of the owner and not because they represent good industrial sites, would be a misuse of resources.

RECOMMENDATION

THE STATE DEVELOPMENT BOARD SHOULD IMPLEMENT A PROGRAM FOR PREPARATION AND UPGRADING OF COUNTY DEVELOPMENT GROUPS. OTHER LOCAL GOVERNMENT GROUPS SHOULD BE ENCOURAGED TO PARTICIPATE. THE EFFECTS OF THE STATE'S ECONOMIC REGIONS AND THEIR IMPORTANCE TO ECONOMIC DEVELOPMENT PLANNING SHOULD BE STRESSED.

We concur fully with this Audit Report recommendation. In the past the State Development Board designed and implemented the GREAT Town Program as a community-based training and self-help program. In addition to this effort, quarterly meetings of those involved in the State's economic development efforts, have been held to inform and instruct members of this "ally" group on current issues affecting economic development. Counties have also taken advantage of one-day orientation and instructional programs for members of their development team and local leaders.

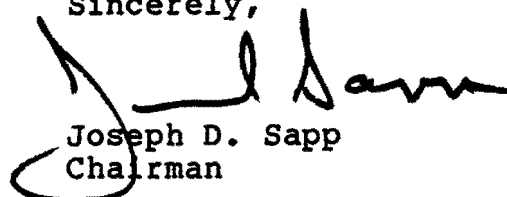
APPENDIX C (CONTINUED)

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I would like to express to you my personal appreciation for the consideration shown by you and your staff and I would again like to commend you for the work done on both reports.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. D. Sapp", is written over the typed name. The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Joseph D. Sapp
Chairman

jwd



STATE BOARD FOR TECHNICAL
AND
COMPREHENSIVE EDUCATION

G. WILLIAM DUDLEY, JR.
EXECUTIVE DIRECTOR

111 EXECUTIVE CENTER DRIVE
COLUMBIA, SOUTH CAROLINA 29210

March 27, 1985

Ms. Carol Routh
Legislative Audit Council
620 Bankers Trust Tower
Columbia, South Carolina 29201

Dear Carol:

I sincerely appreciate the opportunity of reviewing the final draft of the document relating to Economic Development. I would like to submit the following comments:

Page 53 relates to JTPA. I think it should be mentioned that JTPA is soft money, and its programs are subject to change each time the federal legislation comes up. It would be a mistake to build a program around that. However, it must be considered in the total aspect of Economic Development. In the last 20 years, this type of federal program has changed five times.

Page 56 states that we only look at jobs or programs which are initiated in the Technical Education System. In 1977, the State Board established a policy which requires each credit program offered at the technical colleges to be evaluated annually in terms of graduates and their placement in jobs or continuing their technical studies full time. A program can be terminated if 50% of the graduates are not placed in jobs related to their TEC program. Attached is a brief description of the Annual Program Evaluation.

The importance of the relation between the TEC programs and available jobs in the service areas of the colleges is also demonstrated by the State Board requirement that each program must have a lay advisory committee made up of individuals from managerial and other levels of the respective occupations. The concern for job oriented programs of study has, in recent years, been supported by an occupational analysis called DACUM (Developing a Curriculum). Attached is a description of this process.

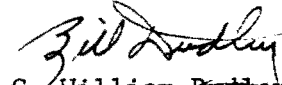
Page 57 deals with 'leavers' and stop-outs. For the past five years, we have used a sampling procedure to follow-up students who discontinued their studies prior to earning a diploma or a degree. This project is part of a federal reporting requirement (VEDS). It is possible that this project may not be funded in the future. We are already making plans to merge our annual program evaluation and the VEDS non-returner survey. An Issue Committee was appointed last summer to generate recommendations to improve our follow-up research.

APPENDIX D (CONTINUED)

Ms. Carol Routh
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March 27, 1985

If you have any questions regarding these comments, please do not hesitate to let me know.

Sincerely,


G. William Dudley, Jr.
Executive Director

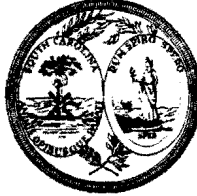
GWDjr:rkg

Attachments

South Carolina Department of Health and Environmental Control

2600 Bull Street
Columbia, S.C. 29201

Commissioner
Robert S. Jackson, M.D.



Board
Moses H. Clarkson, Jr., Chairman
Leonard W. Douglas, M.D., Vice-Chairman
Gerald A. Kaynard, Secretary
Barbara P. Nuessle
Oren L. Brady, Jr.
James A. Spruill, Jr.
William H. Hester, M.D.

January 4, 1985

Mr. George L. Schroeder
Legislative Audit Council
State of South Carolina
620 Bankers Trust Tower
Columbia, SC 29201

Re: Shellfish Seasons

Dear Mr. Schroeder:

This letter is in response to the meeting that Mr. Luke Hause, Director, Shellfish and Recreational Waters Division had with your staff on November 7, 1984 concerning shellfish seasons. After reviewing the material, it was thought that this draft legislation had been previously reviewed a few years ago while it was in subcommittee.

This Agency is extremely cognizant of the economic advantage to the state and to a needy segment of our populace, the fishermen, in having a longer shellfish season. However, there are several reasons why we cannot support an extended season. These reasons center around both shellfish quality and staffing requirements.

The warm summer months in our state and those to the south of us are likely to produce higher bacterial levels in shellfish waters and in the shellfish meats than during colder months. In fact, every year our Shellfish Division faces a herculean task of monitoring shellfish products from those states that have a summer season. Our records show that about 75% of cases with high bacteria levels in shellfish come from those states that have a year-round season and these high bacteria episodes generally occur during the summer.

In addition, lengthening the present shellfish season would require an increase in DHEC's staff and laboratory capabilities. Each time an area is surveyed, it takes several sampling periods (3-4 days for each sampling period) to determine water quality. Of course, the added load for staff personnel to collect samples and the increase in required laboratory analyses often may conflict with other existing priority requirements demanded of DHEC.

APPENDIX E (CONTINUED)

Mr. George L. Schroeder
January 4, 1985
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Should you have any questions or comments or wish to meet to discuss these issues, please feel free to communicate with us.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob Jackson", with a long horizontal flourish extending to the right.

Robert S. Jackson, M. C.
Commissioner

RSJ:JLH:fmw